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LYBRAND JOURNAL

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Contents

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A view, above, of the office of John R. Berthoud, Manager of the Hartford office opened in 1958. The office is located in a new, completely air-conditioned building at 37 Lewis Street, the "Little Wall Street of Hartford."

LYBRAND JOURNAL

Coopers & Lybrand

The January-March, 1958 issue carried brief histories of Cooper Brothers & Co., McDonald, Currie & Co., and Lybrand, Ross Bros. & Montgomery, the firms which initially joined to form Coopers & Lybrand. Subsequently, the partnership of Despacho Roberto Casas Alatriste, in Mexico, and the trustee company of Treuhand-Vereinigung A.G., in Germany, were admitted to the international firm. Brief histories of the Mexican and German members are given below.

DESPACHO ROBERTO CASAS ALATRISTE

The history of the firm and, indeed, the history of the accounting profession in Mexico, has paralleled the career of Roberto Casas Alatriste. At the time he was a student, public accounting was not a recognized profession in Mexico and there was no way whereby a young man could be educated or trained for this work. A short curriculum, the title of which may be translated as "commercial accounting" was available but it bore little relation to the educational requirements of today.

Young Roberto Casas Alatriste followed this course of study; he passed his school examinations in 1910, and shortly thereafter started to practice as a public accountant. He soon became active in politics. The revolution that overthrew Diaz followed shortly and many troubled and unsettled years followed. From 1918 to 1924 he was a member of Congress, the national legislature. While in Congress, he served on the commissions of public credit, finance and the budget, and on a special commission that dealt with the "de la Huerta-Lamont Agreement" which adjusted the terms of the Mexican public debt. He also served for a time as financial agent of Mexico in New York.

A considerable stimulus toward professional recognition was made in 1925 when all graduates of the "commercial accounting"

curriculum who were in public practice were given a certificate as public accountant.

In 1924, Sr. Casas Alatriste definitely retired from politics and in November of that year returned to the practice of public accounting. He opened a small office in the center of Mexico City and his practice grew steadily over the years to the present firm. In the first years, engagements were usually for expert's reports, accounting consultation—mainly in regard to lawsuits, and tax services. Among the first clients were the electric light subsidiaries of Electric Bond and Share Co. and certain mining enterprises that are still clients. Shortly thereafter, Roberto Casas Alatriste was appointed external auditor of Banco de Mexico, S.A., the central bank of Mexico, a position he continues to hold. The return of more settled political conditions after 1930 contributed to the growth of the national economy. Additional clients included several banks, insurance companies, railroads and important industrial companies such as automobile assembly plants, textile and paper mills, shoe factories, and railroad car manufacturers.

The size of the staff kept pace with the growing clientele. One of the first to join the founder was Sr. Jose Perez Oronoz, who came as a tax consultant. Sr. Perez Oronoz is still with the firm as head of the tax department. Sr. Carlos Robles was with the firm several years and is now general manager of Nacional Financiera, the leading national trust company. Sr. Sealtiel Alatriste, after service with the firm, was appointed Treasurer of the Federal District of Mexico, and subsequently opened his own public accounting office. Another associate, Sr. David Thierry, also has his own practice now.

After World War II, many more engagements were received from the United States, in connection with several leading American accounting firms, and other countries, principally Italy and England. A foreign department was established, which became the nucleus of a large practice of work referred from abroad.

In 1949, after having occupied the same office for a quarter century, the firm moved to its present location in the Mariscala Building, one of the principal buildings in the commercial district of the city.

On January 1, 1953, the firm was legally constituted as a partnership under the name of Despacho Roberto Casas Alatriste. The founding partners and their principal activities are:

Roberto Casas Alatriste, General Director.

Jose Perez Oronoz and Roberto Casas Hernandez, tax department.

Manuel Resa, Jr., auditing and newspaper circulation certification.

Luis Belendez Lopez, auditing. (Sr. Belendez retired in 1954.)

Agustin H. Rosenblueth, auditing and accounting for small businesses.

Rogerio Casas-Alatriste H., auditing (mostly foreign engagements) and office manager.

In July 1955, Sr. Eduardo Creel, who had several years of service in the firm's foreign department and had also some previous experience with other public accounting firms, was admitted as partner.

During 1954 the category of junior partner was established to admit young accountants who have passed their examination for public accountants, and have acquired considerable experience with the firm and are being prepared for additional responsibilities.

Present junior partners are: Srs. Guillermo Preciado, Oscar Chavez, Carlos de la Llera, Alberto Nunez and Alberto Paras.

By 1948, the staff had grown to eighty persons. At the end of 1957, there were 112, including 12 partners.

The growth of the firm could not have taken place without the growth of the profession in Mexico. Early in his career, Roberto Casas Alatriste was a leader in the movement to gain recognition for the accountant as a professional man, and in providing means for accounting education. He was one of the founders of the Mexican Institute of Accountants and served two terms as president. Other partners of the firm have continued to take a keen interest in the affairs of the Mexican Institute and have served as officers from time to time.

Through its General Director, designated as president of the Mexican delegation, the firm has participated in the activities of the International Accounting Congresses and the Inter-American Conferences on accounting. When the Inter-American Congress met in Mexico City, he served as president of the conference and was designated "Accountant Emeritus" of America. Many partners of the firm have participated in activities of the American Institute of Certified Public Accountants, some having been designated as International Associates of the Institute.

With the reorganization of the National University of Mexico in 1929, facilities became available for professional education in the University's School of Commerce. Sr. Casas Alatriste, together

with others in the firm, has taken a prominent place in furthering these educational opportunities. After serving as professor in the School of Commerce, he was elected principal of the School in 1933. He presently serves on the Board of Governors of the National University. Several of the partners are now on the faculty of the school and conduct classes in accounting and auditing.

A substantial contribution to the profession has been made since 1935 through the publication by the firm of "Finanzas y Contabilidad" (Finance and Accounting), a monthly professional accounting magazine which enjoys a wide circulation throughout the Spanish-speaking countries in the Western Hemisphere.

With the increasing volume of international clients, including many also served by Lybrand, Ross Bros. & Montgomery in the United States, it was most natural that the firm should enter the international firm of Coopers & Lybrand. This event took place in October, 1957, and has increased measurably the international firm's capacity for service through representation in this important country.

TREUHAND-VEREINIGUNG A.G.

Treuhand-Vereinigung A.G. was formed as a trustee company in Berlin in the summer of 1905, with a staff of twenty, by two well-known banks, the Dresdner Bank and the A. Schaffhausenscher Bankverein. Besides creating a trustee company the banks aimed to form an independent organization to relieve them of the function of watching over the affairs of the persons to whom money had been lent, which was becoming necessary as a result of rapid industrialization financed by the banks. Treuhand was the second company of its kind in Germany.

In its early years therefore Treuhand's activities consisted of the administration as trustee of all types of property and security, and also of the examination of the accounts of business undertakings to see the extent of their liabilities and that the banks' security was maintained.

In the 1920's and 1930's there was an important change in approach to the examination of business accounts, when the "audit" was extended to an examination of the accuracy of the balance sheet as a whole and the profit and loss account was more thoroughly checked. Until 1931 audits were optional unless required by the banks, but in that year it became compulsory in Germany for limited companies to have their accounts audited

annually by officially appointed auditors or auditing companies. Treuhand was one of the first officially appointed auditing companies in 1932 and its activities in this sphere increased each year from that time forward.

Treuhand's activities were at that time mainly concentrated on auditing but it then began to undertake work in other fields. This comprised investigations into the profitability and value of businesses, the organization of the management and the administration of businesses, and price fixing. Trustee work increased in volume and Treuhand often acted as trustee for the security, lodged to support German and foreign industrial loans, and as independent administrator of assets mortgaged by borrowers of capital. Taxation advice became increasingly important and Treuhand was given official recognition as a taxation expert. With the continual extension of these activities, and also of its auditing practice, which represents a substantial part of its business, Treuhand increased in size. In 1932 it had a staff of one hundred and ten and in 1942 of one hundred and forty with offices at Berlin, Hamburg, Dresden, Cologne and Frankfurt. At the end of the war in 1945 the staff had fallen to eighty. In 1948 the head office was moved to Frankfurt/Main and the network of branch offices was re-organized to meet the existing conditions. Treuhand has now offices at Frankfurt/Main, Berlin, Hamburg, Karlsruhe, Cologne, Munich, Pirmasens, Saarbrücken and Stuttgart and a staff of one hundred and seventy, of whom about two-thirds are qualified in audit work or other specialized activities.

It is a German peculiarity that the old trustee companies were formed as joint stock companies and Treuhand is no exception to this. It was found preferable for trustee work to be carried out by a concern, the lifetime of which is unlimited, rather than by an individual. However, these companies are analogous to the partnerships of accountants, for the members of the board of directors (who are analogous to the partners) can change whilst the company continues to exist. Originally the capital of Treuhand was meant to be a guarantee capital and was subscribed by the two foundation banks but it has to a great extent lost this role since the introduction of indemnity insurance and it now provides working capital. Over 75% of the capital is now owned by the directors. There are five members of the board of directors:

Dr. Herbert Koehler, 49, WP & StB, has been a member of the staff of the Treuhand-Vereinigung since 1932 and of the board of directors since 1949. His main field is taxation.

Dr. Albert Meier, 51, WP & StB, has been a member of the staff of the Treuhand-Vereinigung since 1933 and of the board of directors since 1939. His main field is to advise on the running and organization of business firms.

Alfons Steinrücke, 58, WP & StB, has been a member of the staff of the Treuhand-Vereinigung since 1930 and of the board of directors since 1936. His main field is auditing, particularly bank audits.

Dr. Edmund Wehler, 56, Tribunal Assessor and StB, has been a member of the staff of the Treuhand-Vereinigung since 1926 and of the board of directors since 1950. He is the chief legal adviser of the company.

Aloys Holterman, 51, WP & StB, has been a member of the staff of the Treuhand-Vereinigung since 1940 and an alternate member of the board of directors since July 1957. His main field is auditing.

The New Partners

Introducing the four men who became partners with the merger last year of the practices of Lybrand, Ross Bros. & Montgomery and Loomis, Suffern & Fernald.

W. HOMER CONKLING

W. Homer Conkling received his early education in the public schools in Orange, New Jersey, and in New York University School of Commerce, Accounts and Finance from which he was graduated with a B.C.S. degree. He entered public accounting in 1909 and became a member of the staff of Loomis, Suffern & Fernald upon the formation of that firm in 1914. He became a partner in 1919.

He is a member of the American Institute of Certified Public Accountants, the New York and New Jersey Societies of Certified Public Accountants, and the National Association of Accountants. He has served on various committees of the States Societies, presently on the New Jersey Society's Committee on Professional Conduct.

Except for a few early years in business life his entire career has been devoted to the public accounting profession. He resides in East Orange, New Jersey.

HENRY B. FERNALD

Henry B. Fernald was born in McConnelsville, Ohio, January 9, 1878. He attended New York University, where he was elected to Phi Beta Kappa and was graduated with a Bachelor of Arts degree in 1901. After five years in Philippine Government service,—educational, treasury and auditing,—he returned to New York and entered public accounting work, obtaining his C.P.A. degree by examination in 1909. In 1914, with Mr. John R. Loomis and Mr. Edward L. Suffern, he organized the firm of Loomis, Suffern & Fernald, which continued in the public accounting field until 1958, when its accounting practice was merged with that of Lybrand, Ross Bros. & Montgomery.

He has been active in many professional and business organizations, including the American Institute of C.P.A.'s, New York State Society of C.P.A.'s (vice president 1917–1920), New Jersey Society of C.P.A.'s (president 1931–33), National Association of

The New Partners

W. HOMER CONKLING

HENRY B. FERNALD

JOHN LEIGHTON

CHARLES H. TOWNS

Accountants (one of the organizers and member of first Board of Directors), American Accounting Association, Mining and Metallurgical Society of America, American Institute of Mining, Metallurgical, and Petroleum Engineers, American Mining Congress (chairman of Tax Committee 1932–1957), International Chamber of Commerce (formerly vice chairman, Commission on Taxation,) Chamber of Commerce of the United States (member of Committee on Federal Finance 1934–1952).

He was special assistant to the Governor of New Jersey in charge of preparation of the State budget (1917–1924).

He has been active in Alumni affairs of New York University —president of the Alumni Federation (1935–1937), Alumni Member of the Council of New York University (1939–1941, 1948–1952)—and received the honorary degree of LL.D. from New York University in 1953.

Mr. Fernald resides in Upper Montclair, New Jersey.

JOHN LEIGHTON

John Leighton was born near Arbroath, Scotland, on February 28, 1905. He attended elementary and high schools in Arbroath and business college in Dundee. After obtaining business experience with industries in Scotland he moved to Canada and joined the staff of the then Dominion Bank in Montreal and then to New York where he attended New York Institute of Accountancy & Commerce, graduating in 1929. During the period he was attending school Mr. Leighton was employed as cashier by an insurance brokerage firm and on the staff of a small accounting firm. He joined the staff of Loomis, Suffern & Fernald in 1929 and was admitted to partnership in that firm in 1939.

Mr. Leighton is a C.P.A. of New York and a member of the American Institute of Certified Public Accountants, The New York State Society of Certified Public Accountants, National Association of Accountants and Institute of Internal Auditors. He has served on various committees of The New York State Society of Certified Public Accountants and the American Institute of Certified Public Accountants and is at present a member of the Society's Committee on Education and Personnel.

Mr. and Mrs. Leighton and their son and daughter live in Tenafly, New Jersey.

CHARLES H. TOWNS

Charles H. Towns was born in Marlborough, New Hampshire, January 9, 1893. He attended public schools in New Hampshire and was graduated from New York University School of Commerce in 1917 with a Bachelor of Commercial Science degree. After several years of varied experience in retail and financial fields and in professional accounting, he became a member of the staff of Loomis, Suffern & Fernald in 1921. He became a partner in that firm in 1927.

During World War I he served as supervisor in charge of cost accounting for the Rochester (N.Y.) District Office of the U. S. Army, Bureau of Ordnance. In World War II he served on a panel of auditors for the U. S. Navy and also in the Procurement Divison of the Secretary's Office. He has also served as a member of a group of accountants in studying and reporting on Federal Budgets for the House Appropriations Committee.

Mr. Towns is a member of the American Institute of Certified Public Accountants, of which he has been Treasurer and a member of the Board of Examiners as well as a member of numerous committees; a member of The New York State Society of Certified Public Accountants, of which he has been President and which he has served in numerous other capacities; and of the National Association of Accountants, of which he is now Treasurer and which he has served in many other positions.

Mr. Towns is married and lives in Queens Village, New York.

A Process Cost System For a Sulphite Pulp Mill

By C. H. Ahsler

In general a process cost system should provide a method for accurate computation of actual costs to produce finished products. In addition, costs should be presented in reports and statements in a manner sufficiently clear to permit the exercise of efficient cost controls. The cost presentation can be designed to bring out significant cost and operating data which can be readily understood, analyzed and summarized at all operating and management levels.

It is believed that the best approach to attain finished product costs with the objective of attaining the ultimate in control of such costs is to present detailed manufacturing costs entering product costs by departments, and by elements of cost such as labor and material. It has been found that the best point of cost control is at the departmental level, particularly when the elements of costs charged to departments are limited to direct costs, such as labor and materials for which departments are accountable. Departmental cost centers should also be set up for the Electric, Steam and Water Departments, and for Burden. Although electricity, steam and water, and burden are used by or affected by many operating departments, it is difficult to measure such departmental usage or effect accurately. To preclude any arbitrary bases for distributing these costs among operating departments, they are allocated directly to pulp grades produced as are the direct costs of operating departments.

An example of a process cost system using these general principles of cost computation, presentation and control is presented for producers of sulphite pulp.

Departmental Costs

Logs, pulp wood, raw materials and supplies are charged to inventory control accounts when purchased and, based upon usage reports, the cost of items consumed are charged into the proper departmental cost center. Charges for labor are distributed into the proper detailed accounts under the departmental cost center as incurred. The monthly charges for insurance, taxes and similar items are charged direct to the burden cost center.

The following are the cost center control accounts used. Each cost center is further subdivided into detail classifications for the various elements of cost such as labor, raw materials, supplies and other costs which in turn are subdivided into the individual cost classifications applicable to each element.

Departmental Cost Centers

Woodyard	Machine drying
Rafting and booming	Steam } Combined as
Log breakdown/chipping	Electric energy } Power House
Acid or liquor making	Water
Cooking	Burden
Effluent disposal	Pulp finishing
Unbleached washing and screening	Warehousing and shipping
Screening and bleaching	

As the type of office equipment and records used is not the object of this discussion, it is sufficient to state that the underlying information is compiled and arranged in a form suitable for posting to the appropriate departmental cost strip. A sample (Exhibit I) of the departmental cost strip used for all departments is reproduced on page 15.

To supply a yardstick for month-to-month comparison and control of costs, the departmental strips provide a column, entitled "Cost per ....," for insertion of unit costs. The amounts inserted in this column reflect the relationship between the volume of departmental (or mill) activity, and costs applicable to the classifications of operating labor, indirect labor, supervision, operating supplies, and all other costs. The volume of departmental activity for most departments is measured by the total operating labor hours for such department, but more appropriate bases for measuring activity in other departments may be used. For example, in the Log Breakdown department, thousand feet of logs used serves as the basis of log breakdown activity during the month. The measure of activity of the mill as a whole is the total operating labor of all departments which may be used to evaluate total burden costs.

Use of Departmental Cost Strips

All departmental and burden costs are accumulated in applicable cost centers for equitable monthly distribution to pulp grades produced. The departmental cost strips are prepared primarily to provide a vehicle for effective cost control at the management level. The accumulated cost information such as operat-

EXHIBIT I

DIVISION __________
DEPARTMENT __________
PERIOD __________

MANUFACTURING COST STATEMENT DEPARTMENTAL COST STRIP

CLASSIFICATION	UNIT	PER UNIT	AMOUNT	COST PER	
LABOR					
Operating	Hrs.				
Other:					
Indirect					
Repair	Hrs.				
Supervision					
Total Other Labor					
RAW MATERIALS					
Wood					
Logs	M. Ft.				
Pulpwood					
Purchased Chips	Tons				
Other					
Total Wood					
Chemicals:					
Sulphur	Tons				
Ammonia	Tons				
Limerock	Tons				
Soda Ash	Tons				
Lime	Tons				
Salt Cake	Tons				
Chlorine	Tons				
Caustic Soda	Tons				
ClO_2 Chemicals					
Paper Mill Chemicals					
Other Chemicals					
Total Chemicals					
SUPPLIES:					
Fuel & Utilities:					
Fuel Oil	Bbls.				
Hogged Fuel	Tons				
Purchased Steam	M. lbs.				
Purchased Elec. Energy	M. Kwh.				
Purchased Water	Mil. Gals.				
Total Fuel & Utilities					
Other:					
Operating					
Finishing					
Repair					
Total Other Supplies					
OTHER COSTS:					
Rents and Royalties					
Taxes					
Insurance					
Retirement Plan					
Depreciation					
Towing and Tug					
Other					
Total Other Costs					
TOTAL COSTS					
PRODUCTION					

GRADE	TOTAL COST	LABOR		RAW MATERIALS		SUPPLIES		OTHER COSTS
		OPERATING	OTHER	WOOD	CHEMICALS	FUEL	OTHER	

ing and other labor, and wood, chemical and supplies usage is presented on each departmental cost strip to provide a means of controlling such costs at the point incurred or where they enter the production process.

In addition, certain statistical information of a departmental operating nature may be presented on the lower portion of each departmental cost strip. For example, the following statistical information may be presented on the Screening and Bleaching department:

Operating hours...

Number of employees per operating hour............................

	Chlorine		*Caustic Soda*	
	Lbs.	*Unit Cost*	*Lbs.*	*Unit Cost*
Pounds used and unit cost per ton of bleached slush:				
Grade A....................	..	....	..	....
Grade B....................	..	....	..	....

	Wood (quantity) Show types separately	*Chips BD Tons*
Log and chip usage per ton of bleached slush:		
Grade A........................	....	....
Grade B........................	....	....

These cost strips are prepared monthly and should alert operating personnel to the importance of costs in the day-to-day performance of their duties; department heads as to the proper usage of labor and supplies; the mill production laboratory as to wood and chemical usage; and the engineering department as to timing of maintenance and usage of repair materials.

The departmental cost strips (Exhibit II) provide information as to the distribution of these costs to the grade costs for the month.

Special Cost Strips for Cost Control

By use of the pegboard, the departmental cost strips may be totaled in any desired combination to provide additional information as an aid to cost control even though these additional cost strips do not enter pulp grade costs in this combined form. An example of a special cost strip is the one which can be prepared

EXHIBIT II

DIVISION ____________________
GRADE ____________________
PERIOD ____________________

GRADE COST STATEMENT

	TONS (Air Dry)	TOTAL COST		COST PER TON: TOTAL	LABOR: OPER.	LABOR: OTHER	RAW MATLS.: WOOD	RAW MATLS.: CHEM.	SUPPLIES: FUEL*	SUPPLIES: OTHER	OTHER COSTS
UNBL. SLUSH PROD. (In BL. Tons):											
Chips Used											
Acid or Liquor Making											
Cooking											
Effluent Disposal											
Power House											
Unbl. Wash & Screening											
Unbleached Production											
Opening Inv. @											
Total											
Closing Inventory											
BLEACHED SLUSH PRODUCTION:											
Slush to Bleach Plant											
Screening—Bleaching											
Chlorine Dioxide											
Water											
Burden											
Bleached Production											
Opening Inv. @											
Total											
Closing Inventory											
UNFIN. ROLL PRODUCTION:											
Slush to Machine											
Broke Recovered @											
Machine Drying											
Unfin. Roll Production											
Opening Inv. @											
Total											
Closing Inventory											
Unfin. Rolls—Other Grades (A)											
Unfin. Rolls to Broke											
Wrappers											
FINISHED PRODUCTION:											
Unfin. Rolls to Finishing											
Finishing Supplies											
Other Finishing Costs											
Loss on Broke Recovered											
Wrap. & Soft Heads Used											
Less: Broke Prod. @											
Finished Production											
Opening Inventory											
Total											
Closing Inventory											
Fin. Pulp to											
COST OF SALES:											
Finished Pulp Shipped:											
This Grade											
Other Grades (A)											
Total Shipped											
Warehousing & Shipping											
Cost of Sales											

*Includes purchased steam, electric energy and water.

(A) Detail of Other Grades											

for total maintenance and repair costs. These costs lose their identity as they are charged directly to the departments in which they are incurred. The costs of the Steam and Electric Energy departments also may be combined to show total cost of the Power House.

Pulp Grade Costs

In order to obtain grade costs, it is necessary to distribute departmental costs to the various grades produced each month on an equitable basis. Provision is made for grade allocation on the bottom of each departmental cost strip. As an intermediate step to the preparation of this statement it is necessary to determine the cost of chips produced and used for all pulp grades during the month. A Grade Cost Statement (Exhibit III) is prepared for each grade produced during the month.

EXHIBIT III

CHIP COST STATEMENT

DIVISION____________________
PERIOD____________________

		QUANTITY	PER UNIT	TOTAL	LABOR OPERATING	LABOR OTHER	WOOD	SUPPLIES OTHER	OTHER COSTS
LOGS—CORDWOOD/PINE PULPWOOD:									
Pulpwood Receipts	Units								
Open Car Inv. @									
Total									
Closing Car Inv.									
Pulpwood Unloaded									
Woodyard	Cords								
Unloaded Cost Pulpwood									
Open Yard Inv @									
Total									
Closing Yard Inv.									
Pulpwood Chipped	Units								
Rafting & Booming									
Log Break /Chipping	M Ft								
Less Rough Lbr. Prod.									
Cost of Chips									
Open Chip Inv @									
Total									
Closing Chip Inv.									
Chips Used									
Distribution:									

Chip Costs

The operations of the Woodhandling and Chip departments produce one grade of chips that is used for all grades of pulp produced. The costs of these departments, therefore, enter into the computation of costs on the Chip Cost Statement.

The cost applicable to the "Pulpwood Chipped" caption represents the cost of wood entering the chipping operation from the

woodyard, and represents the average cost of pulpwood unloaded during the month, and the woodyard opening inventory. The changes in the pulpwood inventory are shown on the upper portion of the Chip Cost Statement. The costs appearing on the Woodyard, Rafting and Booming, Log Breakdown and Chipping departmental cost strips are posted by elements to the related captions on the Chip Cost Statement. Credit is given at predetermined unit amounts for Rough Lumber Produced.

The total cost of chips produced during the month is adjusted by the change in inventory of chips, valued at average cost, to arrive at the total chips used during the month. The tons and cost of chips used for a particular grade of pulp is posted to the related caption on the Grade Cost Statement.

A discussion of departmental allocation of costs to pulp grades follows.

Acid or Liquor Making Department

All raw materials (chemicals) expended in this department are charged to grades on the basis of the actual usage reported by the mill laboratory. All costs other than raw materials are distributed to grades on the basis of the percentage relationship of number of cooks completed for each grade, to total number of cooks completed for all grades.

Cooking, Effluent Disposal, Unbleached Washing and Screening Departments

All costs of these two departments are distributed to grades on the basis of the percentage relationship of digester hours for each grade to total digester hours for all grades. Digester hours are defined as total elapsed time for all digesters during the production of each grade, less the digester lost-time during the running of each grade.

Screening, Bleaching and Machine Drying Departments

All raw materials (chemicals) expended in these departments are charged to grades on the basis of actual usage reported by the mill laboratory. All other costs are distributed to grades on the basis of actual digester hours during the month necessary to cook the bleached tonnage produced in Screening and Bleaching, and the net dried tonnage produced in Machine Drying. As actual digester hours necessary to cook this production is difficult to measure, the tons produced in each of these departments must be

converted into terms of digester hours (based upon the actual experience in the Cooking department) before the percentage for allocation of costs can be computed.

Steam, Electric Energy (Power House) Departments

The costs of these departments are distributed to grades on the basis of metered usage for the entire mill. The steam and electric usage during shutdown periods is allocated to grades on the basis of usage by each grade during the operating periods of the month.

Water and Burden Cost Centers

The cost of these cost centers are distributed to grades on the basis of the same digester hours used to distribute costs of the Screening and Bleaching department.

Pulp Finishing Department

The cost of finishing supplies is distributed to grades on the basis of actual usage. Operating labor is distributed on the basis of actual time worked on the various grades. Other costs are allocated on the basis of the percentage relationship of tons of each grade finished to total tons of all grades finished.

Warehousing and Shipping Department

All costs in this department are distributed to grades on the basis of the percentage relationship of tons of each grade shipped to total tons of all grades shipped.

Preparation of Grade Cost Statement

The results obtained from applying the various bases of distribution to departmental costs are inserted, by grades and elements, on the lower portion of the departmental cost strips. These together with chip costs (as shown at the foot of the Chip Cost Statement), are posted directly to work sheets used in preparing the Grade Cost Statement. The work sheets (one for each grade) are identical to the Grade Cost Statement except that under each cost element an additional column is included for "Amount." The work sheet serves merely as an intermediate step for computing the costs per ton which are shown on the final Grade Cost Statement. The inventories at intermediate points of the process (such as unbleached, bleached slush, unfinished rolls) are priced at the average of the opening inventory value plus current month's production cost.

Broke

Broke may be defined as torn, broken and soiled stock, shavings, cuttings and trimmings and off-grade unfinished rolls cut for the pulp beater. For accounting purposes, broke produced is recognized only in operations subsequent to the weighing of unfinished rolls. Separate inventory records, showing tonnages and elements of costs, are maintained for each grade of broke.

The amount used for the caption "Less, Broke Produced," on the Grade Cost Statement, is obtained by multiplying the applicable tonnage by the average cost per ton of the opening inventory plus current month's production of unfinished rolls. The amount for "Broke Recovered" caption is obtained by multiplying the tonnage recovered by the average cost of opening inventory plus current month's production cost of bleached slush. The caption "Loss on Broke Recovered" results from pricing broke recovered and placed back into pulp production at a lesser value than the average value used to cost broke produced. This method of pricing broke recovered records the original machine drying cost loss that is incurred when the broke is placed into slush production. No tonnage is used for this caption on the cost statement as no weight loss occurs.

Wrappers and Soft Heads

Some of the pulp manufactured at the mill is used as a protective covering for finished rolls and bales; such pulp is called wrappers and soft heads. Separate inventory records are maintained for wrappers and for soft heads showing tonnages and elements of cost. The amount inserted after the cost statement caption "Unfinished Rolls to Wrappers" results from the tonnage produced for this purpose, multiplied by the average cost of current month's production plus opening inventory of unfinished rolls. The caption "Wrappers and Soft Heads Used" on the cost statement represents the tonnage so used times the average cost of opening inventory, plus current month's wrappers and soft heads inventory additions.

Grade Production Quantities and Unit Costs

Production and inventory quantities shown on grade cost statements are expressed in terms of air dry tons. All tonnages which precede Bleaching are expressed in equivalent bleached tons (air dry); the shrinkage which takes place in the manufacture is assumed, for cost purposes, to have occurred at the initial stage

of slush production. Prior to the stage of mill operations where slush is dried and weighed, no positive measurement of slush production is feasible. As a result, the quantity of slush produced in each operation, which precedes Machine Drying, is calculated by working backward, through estimated inventories, from the quantity of unfinished rolls weighed off the drying machine less broke recovered.

The first operating stage of measurable pulp production is unbleached slush and therefore the first entry for tonnage on the grade cost statement is made opposite the caption "Unbleached Production" in the column headed "Tons (Air Dry)".

The unit cost per ton shown on the grade cost statements relates to the per ton cost of the finished product and develops that unit cost by each departmental operation and burden cost which contributed to the total cost of the finished product.

Cost Control

This cost system has been designed to provide the tools for effective cost control, both at the mill and management levels. It is helpful for control purposes to compare these actual costs with predetermined normal costs. The predetermined normal costs are developed by departments for each grade to be produced and are based upon reasonably obtainable standards. Explanations of the variations of the actual costs from predetermined normal costs are obtained at the mill level in the form of a regular monthly report.

Shutdown Expense

It is inherent in a mill where all operating facilities are used as a combined unit, in continuous twenty-four hour a day production, that operations of the entire mill must cease on occasion for maintenance and repairs and during periods of reduced production requirements. In the month that a major shutdown occurs, abnormally high unit costs of pulp produced may be developed by reason of low production tonnage in relation to fixed costs.

To eliminate abnormal shutdown costs from the unit cost of pulp (for inventory valuation in all stages of production) the appropriate amount of such abnormal cost is allocated to a caption "Shutdown Expense" (instead of to a pulp grade) at the bottom of each departmental cost strip. The amount of such shutdown expense for all departments is charged directly to a cost of sales account.

Audit Reports and Contractors' Accounting Methods

By J. Edward Burke

In the usual audit engagement, the Certified Public Accountant expresses his opinion of the presentation in the financial statements in the form of a report. This report may be the so-called "short-form" or the "long-form." The short-form report accompanies the basic financial statements, that is, the balance sheet and statements of income and surplus. A long-form report, on the other hand, should include the short-form report and basic financial statements, together with a host of other information, such as detailed comments, schedules, comparisons, analyses and supplementary data with respect to various classes of assets, liabilities, working capital, sales, costs, expenses, etc. Bankers and other credit grantors usually favor a long-form report.

But let's take a look at the short-form report and find out something about it. If you notice, the second paragraph begins "In our opinion . . ." We prefer to call this a "report" or an "opinion" rather than a "certificate" because we are really giving our opinion on the company's financial statements, not certifying to them. Webster defines a "certificate" as a "written testimony to the truth of any fact." Our report does not go that far.

I am referring to an unqualified opinion, which means that the auditor has applied all proper auditing procedures which, in his skilled and experienced judgment, he has considered necessary to form his opinion that the financial statements present fairly the financial position of the business at the balance sheet date and the results of operations for the year then ended. It also means that, in all material respects, generally accepted accounting principles have been applied in the accounting records and in the preparation of the statements. It means that the principles applied are consistent with those in the prior period.

The report starts off by saying in the first or scope paragraph that the examination was made in accordance with generally accepted auditing standards. These standards are the underlying principles of auditing which control the nature and extent of evidence to be obtained by means of auditing procedures. There are ten of them, they are broad in scope, and they concern the

C.P.A.'s personal qualifications, the quality of his field work, and the report he renders. Whereas auditing procedures must be varied to meet the requirments of the particular engagement, standards to be observed in selecting and applying the procedures are the same in all examinations of financial statements.

Since the auditing procedures vary from engagement to engagement, the choice of which procedures to apply is based on the experienced judgment of the auditor. That is why the report says "included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances."

There are two auditing procedures which since 1939 have been considered of such importance that they are classified as "generally accepted." If the auditor wishes to express an unqualified opinion, he must satisfy himself as to the fairness of the inventories by observing the taking of the physical inventories, and he must confirm receivables by direct correspondence. In rare cases, it may not be practicable or reasonable to follow these procedures, in which case the auditor must so state and further state whether he has been able to satisfy himself by alternative procedures.

For example, certain types of debtors, such as departments of the United States Government, often state, in reply to requests for confirmation of receivables, that they cannot or will not confirm such amounts. The auditor usually can satisfy himself with respect to such receivables by alternative procedures, and this first paragraph will have a sentence added, saying something like "We did not consider it practicable to confirm by direct correspondence amounts due from United States Government departments, as to which we satisfied ourselves by means of other auditing procedures."

Similarly with inventories, where it was not practicable and reasonable for the auditors to observe the physical counts, there would be a sentence reading something like this: "The company did not consider it practicable and reasonable to substantiate the book inventory of its work in process by a physical inventory. However, we satisfied ourselves with respect to such inventories by means of other auditing procedures."

These are examples where the auditor's inability to follow generally accepted auditing procedures was beyond his control or the client's control. If, on the other hand, the client has imposed

restrictions on the scope of the audit, by refusing to let the auditor confirm receivables, for example, the auditor cannot and must not give an unqualified opinion, even if he can satisfy himself by other procedures. Under such circumstances, the auditor's report might read as follows: "The terms of our engagement did not include the confirmation of receivables by direct correspondence with debtors, nor did they include the physical observation of the taking of inventories, and we are unable to express an opinion on the over-all representations in the attached statements."

Another example might be where the auditor did not observe the inventory taking at the beginning of the year (for instance, on a new engagement) and was not able to satisfy himself by alternative procedures as to the fairness of the amount. After stating the situation in the scope paragraph, the auditor might then say: "Because we did not observe the inventory taking at the beginning of the year, we do not believe we have sufficient basis for an opinion concerning the cost of goods sold and the over-all operations for the year." The report would then say that the balance sheet and items of income and expense, except cost of goods sold, were presented fairly, etc.

In addition to the two generally accepted auditing procedures already discussed, there are other situations which require disclosure in the short-form report, sometimes with qualification of the opinion and sometimes without. Some are merely informative disclosures which ordinarily will permit an unqualified opinion. Others result from the auditor's inability to perform all auditing procedures he considers necessary, or departure from generally accepted accounting principles preventing fair presentation, or changes in accounting methods preventing fair presentation or comparison. In all of these situations, we should not lose sight of the element of materiality. If the effect of the deficiency is insignificant or immaterial, the auditor usually will make no mention of it.

The informative disclosures I just mentioned include all material information necessary to a fair presentation. Such information may be disclosed in the body of the statements themselves, or in footnotes. But if the auditor believes that the information set forth is not adequate, he should make the necessary explanations in his report.

When the auditor is unable, for whatever reason, to perform all of the auditing procedures he considers necessary, he will dis-

close that fact in the report. For example, at the end of the first paragraph, you might see: "It was not practicable for us to substantiate the valuations determined by the Board of Directors for 'Other Investments' for which market quotations were not readily available." The second paragraph would then begin: "In our opinion, based upon our examination and upon the directors' valuations referred to above," etc.

If an auditor has not audited the financial statements, it is obvious that he cannot express an opinion on them. If such statements are presented on the auditor's stationery without specific comment, auditing standards today require that a warning, such as "prepared from the books without audit" appear prominently on each page of the statements. This warning amounts to the same as a disclaimer of opinion.

The auditor would qualify his opinion and might even have to disclaim an opinion when there has been a material departure from or violation of generally accepted accounting principles in keeping the accounting records or preparing the financial statements. Generally accepted accounting principles are made up of a body of conventions for dealing with accounting problems. They have been developed over the years as a result of study and experience and have come to be widely recognized as sound guides in making accounting decisions. One source of generally accepted accounting principles for matters covered therein is the set of Accounting Research Bulletins which have been issued by the committee on accounting procedure of the American Institute of Certified Public Accountants.

An example of a qualification in the auditor's opinion might arise where management insists on pricing its inventory at the end of the year at an amount materially less than what the auditor feels is proper. In this event, the auditor would insert a middle paragraph in his report, reading something like this:

> The inventories were priced by the management at amounts approximately (so many dollars) less than would have resulted from the application of the generally accepted basis of the lower of cost or market (at the balance sheet date), and accordingly net income for the year then ended was reduced by (so much).

The second paragraph would then begin:

> Except as to the basis of the inventory and its effect upon net income described in the preceding paragraph, in our opinion, etc.

One of the requirements for an unqualified opinion is that the generally accepted accounting principles applied be on a basis consistent with that of the preceding year. If the auditor performed an audit in the prior period, that examination provides the basis for his opinion as to consistency. If no examination was made in the prior period, the auditor will make whatever review he feels necessary to satisfy himself as to consistency.

If a change has been made in the method of accounting that would make a comparison of the statements materially misleading, the auditor should disclose the facts in his report, unless they appear in a note to the statements. If the auditor disapproves of the change, he should give a brief statement of his reasons for disapproval and qualify his opinion. If the change is legitimate and advisable, the auditor will usually indicate his approval. In any case, the dollar effect of the change on the financial position and results of operations should, if determinable, be stated.

A good example of lack of consistency would be where a long-term contractor has changed from a "completed contract" basis to a "percentage of completion" basis of recording income, or vice versa. Although both methods are generally accepted, a contractor who shifted back and forth as he desired would be able to control the amount of his profits for a particular period, even though his profits for the entire period of the contract might be stated fairly.

This leads us to a discussion of the two methods of recognizing income under long-term contracts. The subject was considered by the committee on accounting procedure of the American Institute of Certified Public Accountants to be of sufficient importance for a bulletin to be prepared. In October, 1955, Bulletin No. 45 entitled "Long-Term Construction-Type Contracts" was issued.

The Bulletin states that the amounts of interim billings frequently are determined in advance or on the basis of considerations which are not acceptable for recognizing income. Therefore, the income to be recognized should not ordinarily be measured by interim billings.

The two accounting methods that are commonly used are the percentage-of-completion and the completed-contract methods. Both are considered acceptable if applied consistently.

Under percentage-of-completion, the amount of income that may be recognized at any time is the percentage of estimated

total income that incurred costs to date bear to estimated total costs. In this connection, estimated total costs means costs to date plus the estimated cost to complete, based on latest information. These figures should be worked up each time the books are closed in order to reflect income properly.

Income computed in this manner, but not yet billed, would ordinarily be a current asset. Billings in advance of recognized income would ordinarily be a current liability. If the computation indicates that a loss will be suffered on the contract, provision should be made at once for the expected loss on the entire contract. It is interesting to note that two of the 21 members of the committee disagreed with this conclusion. They felt that the expected loss should not be recognized until realized, and that disclosure by footnote or reservation of retained earnings would be all that was required.

The principal advantages of the percentage-of-completion method are recognition of income currently as work progresses rather than irregularly as contracts are completed, and the reflection of the status of uncompleted contracts provided through estimates. The principal disadvantage is that it is dependent upon estimates of future costs which are usually subject to uncertainties common to long-term contracts.

The completed-contract method recognizes income only when the contract is completed, or when remaining costs are insignificant. As in the percentage-of-completion method, provision should be made for expected losses.

Under the completed-contract method, it may, in certain circumstances, be appropriate to defer general and administrative expenses and consider them as contract costs, rather than writing them off currently. This is particularly true when the contractor has only a few large contracts, and may result in a better matching of costs and revenues, especially if no contracts are completed during a period.

The excess of accumulated costs over billings should ordinarily be shown as a current asset with some descriptive title such as "costs of uncompleted contracts in excess of related billings" rather than as "inventory" or "work in progress." The excess of accumulated billings over related costs is usually shown as a current liability. Offsets are not generally made; that is, the figures on the asset side should include only those where costs exceed billings.

The main advantage of the completed-contract method is that it is based on results as finally determined and is not subject to estimates which may involve unforeseen costs and possible losses. The main disadvantage is that it does not reflect current performance when the period of a contract extends into more than one accounting period and thus may result in irregular recognition of income.

In deciding which method is preferable, the committee on accounting procedure stated that when estimates of cost to complete, or extent of progress can be computed with reasonable dependability, the percentage-of-completion method is preferred. When lack of dependable estimates or inherent hazards cause forecasts to be doubtful, the contractor should use the completed-contract method. In either case, the method followed should be disclosed.

New Publications

The publication of "Budgeting" by Herman C. Heiser has been announced by The Ronald Press. This new work describes the use of scientific budgeting as a key to the effective planning, coordinating and controlling of all phases of a business operation.

Mr. Heiser is partner in charge of the Firm's Management Services Research and Consulting Division.

Management Planning for Profit*

By M. B. T. Davies (*Tulsa Office*)

In the normal corporate entity it is neither the stockholders nor the rank and file who plan for profit. This responsibility rests squarely on the shoulders of the management. In fact, it is one of management's principal responsibilities.

Included in the management team is a financial executive. His title is immaterial for this purpose—vice president in charge of finance, treasurer, controller, etc. In some corporations this executive responsibility is shared by more than one member of the management team; in the smaller corporation one executive has a comprehensive role in this respect.

The financial executive does not create profits. However, he has a significant function in sharing with his colleagues the load of planning for profits and assuring that the plans are accomplished. His relationship with the rest of the management group involves the exercise of four functions: communication, counsel, coordination and appraisal.

Communication is the process of informing key people about significant facts. The financial executive acts as a nerve-center, collecting information, condensing it, analyzing it, explaining it, and disseminating it to those who are responsible for making decisions. It should reach them in a way—and in time—to allow them to make wise decisions. Cost statements, break-even charts, budgetary comparisons and financial reports are familiar examples of this type of information.

Counsel is closely allied to communication. The financial executive is a specialist. Combine his specialist knowledge with that of the other executives, and you get a well-rounded viewpoint. He points out to the sales executive where a change in emphasis will produce higher profits. He shows the manufacturing executive how he can reduce costs by changing the quantities of his production runs. He warns the advertising executive that he is about to exceed his budget. Through his advice, his fellow executives can take action with greater assurance.

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* This paper was presented at the meeting of the Controllers' Institute, Tulsa Control, on December 8, 1958.

Coordination is the process of combining the elements of the operations into a unified whole. It helps to protect against business imbalances. It provides a broader picture for the chief executive. Add the component parts of the business together, then look at the total picture in its broad perspective; the result is a well-developed plan for future profits.

Appraisal is a process of comparison. The financial executive measures plans against policies. Later, he measures results against plans. It demands an intellectual effort. He has to get the facts, analyze them, make deductions from them, put them to effective use.

WHAT DOES PROFIT-PLANNING INVOLVE?

We have briefly considered the financial executive's method of approach. From this it will be seen that his value to his organization lies more in his management capacity than in his skill as a bookkeeper. Of course, the accounting must be effective. Except in the case of a smaller business, however, the financial executive should have capable assistance in this area and have sufficient skill to make sure that the accounting system is operating effectively. The more time he devotes to this function, the less he is able to function as a manager and the less effective will he be as an architect of future profits.

Management's responsibilities have been subdivided as follows:

1. Decide what has to be done.
2. Break it down into jobs.
3. Assign the right people to do each job.
4. See that the jobs get done.

Since profit-planning is a management responsibility, it follows that it should be pursued according to this four-step program.

I should like to select seven areas in which the financial executive can play an important part in management planning for profit. Then let us elaborate on these points and examine some of the features that need consideration.

1. *Budgeting*

Budgeting is the technique for planning one's future operations in numerical terms. It serves as a tool to make sure that the proposed operations are feasible and profitable. And it provides a yardstick for measuring actual performance and for spotting exceptions.

2. *Capital expenditures*

Nearly every business has to invest in property, plant and equipment. "Invest" is a most misleading word, because what is regarded as an investment is nothing more than a long-range prepaid expense. After allowing for salvage, capital expenditures represent nothing more than prepaid depreciation expense. But this very term "investment" endows them with a quality they do not possess. If we lock up too much money—or insufficient money—in capital expenditures, the business will suffer. And, because the amounts are normally so great, special planning techniques are needed.

3. *Taxes*

In a profitable corporate business, one of the most significant items of expense is taxes. Taxes can be regarded either as an uncontrollable expense, deductible from profits, or an expense which can be held within bounds by judicious planning. If a business operates at a 33⅓% gross profit, a saving of $100 in income tax is equal to an additional sale of over $600. So taxation expense should be planned.

4. *Financing*

Every business needs money as a basis for operating. If there's insufficient money the business may have to reduce the level of its activity, or it may lose an opportunity for gaining profitable business. The conservation of money, therefore, is an inherent part of profit-planning.

5. *Long-range development*

In some types of business, such as utilities and lumber, long-range planning is accepted as essential.* Regardless of the nature of the activity, however, long-range development is vital for producing a satisfactory growth in profits and protecting one's position in the industry.

6. *Cost reduction*

Whenever we can reduce costs—prime, indirect or general overhead—we create added profits and put ourselves into a stronger competitive condition. Attention to the many and ever-present opportunities for cost reduction is again a function of profit-planning.

7. *Method improvement*

It has been said that the essence of successful competitive practice is to render one's competitors' products obsolete. This can be done either by product development, or by cost reduction through method improvement that gives one a favorable price advantage. Unless we improve our methods, we may find that our competitors may have rendered our own products obsolete.

Here are seven points, then, that should concern the financial executive in planning for future profits. Let us now consider some of the individual features that should occupy his attention.

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* A few businesses plan as far ahead as fifty years or more.

BUDGETING—THE STRUCTURE OF FUTURE OPERATIONS

Here are some questions to be evaluated in determining whether the system of budgeting is effective as a tool in planning for profit.

1. Does every department participate in creating its own budget? This is the best way of gaining its acceptance.

2. Is budgeting used as a tool for comparing actual with projected performance and for examining significant deviations?

3. Is there an effective central point of coordination for the budgeting activity?

4. Are flexible budgets used, so that expense levels can be adjusted to meet changing sales volumes?

5. Is the budgetary structure properly correlated, first, with organizational responsibilities and, also, with the chart of accounts?

6. Does the budget provide an additional check mechanism on accounting accuracy?

7. Are sales forecasts developed realistically, and are practical steps taken to see that they are met or bettered?

8. Is the budget reviewed at relatively frequent intervals and revised where necessary?

9. Does the budget create a healthy cost-consciousness, or does it have an adverse effect on morale because it is enforced either too rigidly or too loosely?

10. Finally, does budgeting have the active and wholehearted support of top management? Only with this is it likely to succeed.

CAPITAL EXPENDITURES—PREPAID DEPRECIATION CHARGES

The impact of judicious capital expenditures on the future success of a business is a matter with which every businessman is familiar. The needs for these expenditures generally exceed the available money, so there is usually a problem of evaluation of projects and allotment of priorities. Then, too, money sunk into fixed assets should return the stockholder more in terms of after-tax income than it would do if distributed as dividends and invested privately.

The substantial amounts involved, the complexity of evaluating priorities and the uncertainty of future conditions, all add up to make this an area demanding the highest quality type of management decision. The financial executive will be concerned with such matters as these:

1. Is the total amount of capital expenditure planned at a rate that insures a healthy over-all corporate structure? (Historical and projected ratio trends should be used in this connection.)

2. Are capital expenditure plans developed in conjunction with long-range planning—five, ten, twenty years ahead?

3. Are plans re-examined periodically and proportionately greater attention given to successive short-term plans as the time rolls by?

4. Are effective economic justifications required before any capital expenditure is authorized, and do these form a basis for considering relative priorities?

5. Is each major project studied after it has been completed to determine whether the expected economies were actually achieved?

6. Is the over-all capital expenditure program so developed that it provides for balanced growth in all activities of the business?

7. And lastly, as some capital expenditures turn out to be failures, are steps taken to identify these failures, to bail out, if practicable, and to use the lessons learned as a protection against recurrences?

TAXES—A FIELD FOR IMPORTANT SAVINGS

The profitability of any projected course of action is materially influenced by its tax aspects. Judicious planning can in many cases result in a lower incidence of tax and produce substantial benefits. The financial executive should be alert to the many opportunities in this area. In particular, he should give consideration to such matters as these:

1. Is there a conscious and well-directed effort to engage in tax-planning—not only in the case of federal income taxes, but in the various other taxes susceptible to planning?

2. Are significant operations and contracts examined before they go into effect to see that a maximum tax shelter is provided?

3. Is sufficient use made of the business' outside tax counsel?

4. Are adequate safeguards taken to protect against tax penalties?

5. Is an adequate review of current legal developments made—either within the company or on its behalf?

6. Is full advantage taken of the many opportunities to provide tax-favored compensation to employees?

7. Is the accounting system so developed that tax returns can be prepared easily and data needed for tax-planning can be readily produced?

FINANCING—THE CONSERVATION OF MONEY

The preservation of an adequate balance of money forms a necessary part of profit-planning. This is the case whether or not

the business encounters periods of temporary or prolonged financial stringency. Here are some examples of areas for examination:

1. Are cash-flow statements projected as a basis for financial planning? Are they developed as an integral part of the budgeting process? Are comparisons made at frequent intervals with the actual cash resources?

2. Is a careful watch maintained on customers' receivables, the age of balances and the rate of turnover?

3. Are inventory levels scientifically controlled—for raw materials, work in process and finished products? Are these levels held to a minimum compatible with purchasing lead time, continuity in the flow of production, and adequate service of customer demands?

4. Is borrowing conducted on the basis of planned cash-flow, and is adequate time provided to raise money on the most favorable terms?

5. Is the dividend policy in line with cash needs, and are stock dividends resorted to, in appropriate cases, for preserving working capital?

6. Are ratios and trends plotted on a historical basis? Are deviations studied? And are historical data used as a basis for projection in developing future plans?

LONG-RANGE DEVELOPMENT—PLANNING FOR THE WORLD OF TOMORROW

Most businessmen and economists, however doubtful of the prospects of prosperity over the immediate future, see lying some twenty-five years ahead an era that will far transcend anything hitherto experienced in our economic history. But only the fit will survive. Those that are unprepared or cannot adapt themselves to a future that may contain radical differences from present conditions will be in constant danger of being eliminated. The past has provided ample evidence of this weeding-out process.

However, the importance of next year's report to the stockholders creates in many businesses a much greater concern for the year or two ahead than the operations that are to produce dividends ten to twenty years hence. In businesses where heavy long-term capital commitments are made, or where natural resources are involved, or where research and development is emphasized, there is generally a recognized need for looking many years ahead. In many other cases, however, this need is underemphasized, and the future suddenly becomes the present and catches the business unprepared.

In planning for this long-range picture, here are some questions to be considered:

1. Are responsibilities established for long-range planning, and, if so, is there adequate participation by younger men?

2. Does the business have adequate economic counsel—either on its payroll or as outside assistance—in determining the expected environment of the future?

3. Is adequate attention given to such factors as major population shifts, inflationary trends, changing consumer habits, new sources of energy, new areas of competition—both domestic and international, and the impact of new products and services?

4. Is a broad financial plan developed and projected into the future as a basis for formulating policy?

5. Are short-range plans knitted in with long-range expectations to avoid a violent change of course in the intermediate future?

6. Is proper care being taken to develop, within the business, men of the caliber to take the helm from the present management in the years to come?

COST REDUCTION—BASIS FOR OPERATING EFFICIENCY

Unless there is a consistent drive to reduce costs, nothing can be more certain than their increase—to the detriment of over-all profitability. The need for reducing costs is a permanent one, in good times and bad. The financial executive can play an important part in this effort. Among the many opportunities, here are some features to which he should give attention:

1. Are incentives used for results achieved in reducing costs?

2. Is a standard cost system in effect, and is it used intelligently as a basis for cost improvement?

3. Is production scheduled on an economic basis, so that runs absorb setup costs and other one-time costs on a minimum-per-unit basis?

4. Is there a continuing effort to reduce transportation costs to a minimum —for inward costs, outward costs, and—a frequently overlooked feature—internal movements?

5. Is purchasing based on the order of scientifically determined lots calculated to buy at the lowest cost after providing for the cost of administering and storing inventories?

6. Is there an effective safety program?

7. Is the cost control program properly correlated with organizational responsibilities?

8. Is cost reduction built in as a major objective of research activities?

METHOD IMPROVEMENT—THE WAY TO GREATER PRODUCTIVITY

Closely allied with cost reduction is the question of improving methods. Method improvement is often stimulated by the experience of people closely associated with the use of the methods concerned. However, opportunities are frequently developed through the efforts of people independent of that work. In an organization of any size there may be three principal groups carrying this responsibility: (1) industrial engineering; (2) research and development; and (3) systems and procedures. An over-all review of their efforts should receive attention from management, particularly in these respects:

1. Is the search for improved methods based on a specification of established needs, rather than a haphazard approach as different situations are encountered?
2. Does the search for improvement spread over the entire operations of the organization?
3. As improvements are developed and approved, is the budget adjusted accordingly?
4. Are facilities available for the prompt transmission of ideas to action centers so that attention can be given to them with a minimum of delay?

CONCLUSION

To sum up these random considerations, we may reach these conclusions:

1. The creation of profit, both in the immediate and far-distant future, is one of management's major responsibilities.
2. As a member of the management group, the financial executive can provide an important service through communicating significant facts, providing counsel, coordinating individual plans into a composite master plan, and exerting continued vigilance to see that operations are developing according to plan.

The field of profit-planning is an extensive one. We have explored only a few of its many facets, and have touched on them only superficially. But the opportunities open to the financial executive are enormous. He is the focal point of his company's profit-planning function.

A scientific plan helps a company to maximize its profits. Decisions made during the course of planning may have an even greater impact on profits than those made when the plans are being executed. Make these decisions early. Test them. Measure their probable effect by comparing them with reliable standards. Start to earn profits before the plans are put into effect.

Change in Fiscal Year vs. Change in Cash Position

By J. Warren Rowland (Rockford Office)

A client was seriously considering a change in its fiscal year. A month end several months after the close of its present fiscal year was determined to be an ideal time to close the year in the future, in view of the relatively low inventory point and low accounts receivable activity, as well as other factors such as avoiding the vacation season, etc.

Just before the final decision was to be made, one of the company's officers asked: "How will this change in fiscal year affect our cash requirements when our income tax payments become due, as compared with the requirements based on our present fiscal year?"

This question not only prompted an analysis to find an answer for the particular client, but it also raised the further question as to what would be the answer under other given sets of circumstances.

The purpose of this article is not to describe the procedures for making a change in fiscal years nor to set forth the many other points to be weighed in the consideration of such a change, but rather to pursue the effect which the change in fiscal years has upon the cash position of the company because of the federal income taxes which must be paid on the income of each taxable period. This article is confined to corporations, since different rules, tax rates, and dates of payment apply to individual taxpayers.

Whenever a corporation changes its fiscal year, a federal income tax return must be filed for the short period of one to eleven months between the end of its old fiscal year and the beginning of its new fiscal year. The federal income tax payments on the income of this short period will require cash at different dates and in different amounts than would have been required if the taxpayer's fiscal year had not been changed.

The natural assumption is that the adoption of a new fiscal year and the filing of a federal income tax return for the short period will accelerate the dates of payment of federal income taxes for all future years. Actually, the dates of payment are accelerated on the taxes applicable to the short period and on the income

of a like portion of each succeeding year but tax payments are *postponed* on the portion of the old fiscal year following the short period and for the like portion of each succeeding year.

There may well be a postponement of all future income tax payments. We might illustrate this situation by taking the case of a corporation which has no profit in the short period for which it will file its return but during the remainder of its old fiscal year will make all its profit, and this same situation can reasonably be expected to exist in the years following. It can be readily seen that there would be no federal income tax on the income of the short period since there is no taxable income. Therefore, assuming that the corporation has a rather constant earnings cycle year after year, there would be a postponement in time of tax payments equal to the length of the short period.

On the other hand, if all the profit for the year falls in the short period, the corporation would find each of its required tax payments accelerated by the number of months in the short period.

A series of calculations was made to determine the effect on the cash requirements for federal income taxes which would be brought about by the adoption of fiscal years ending on March 31, June 30, or September 30. These calculations are all based on the assumption that the company's present fiscal year ends on December 31, and that the proposed change of fiscal years would take place in 1959. The assumption has also been made that in all cases the corporation's taxable net income for the calendar year 1959 or any full year commencing in 1959 or thereafter would be $1,000,000 regardless of the amount earned in each individual quarter.

The payments on declarations of estimated tax have been based on income of the preceding year, which in all cases was assumed to be $1,000,000.

As a by-product of the calculations of accelerated or (deferred) taxes, a computation was made of the amount of interest which these advanced or (deferred) tax payments would cost or (earn) at an assumed interest rate of four per cent per annum.

In any event, any corporation which is considering the adoption of a different fiscal year should investigate the effect of income tax payments on its cash position. Furthermore, some companies which have not previously considered a change in fiscal years might find it desirable to do so in view of the possibilities of the postponement of income tax payments.

Summaries of the results of the calculations follow:

THE EFFECT OF CHANGING TO A FISCAL YEAR ENDING MARCH 31

	Assumed income for the three months ended March 31, 1959				
	$400,000	*$300,000*	*$250,000*	*$200,000*	*—0—*
Federal income taxes advanced or (deferred) for a period of three months from:*					
June 15, 1959........	$103,312	$77,312	$64,312	$51,312	
Sept. 15, 1959........	103,000	51,000	25,000	(1,000)	($103,625)
Dec. 15, 1959........	103,000	51,000	25,000	(1,000)	(103,625)
Mar. 15, 1960........	53,000	1,000	(25,000)	(51,000)	(153,625)
June 15, 1960........	53,000	1,000	(25,000)	(51,000)	(153,625)
Sept. 15, 1960........	103,000	51,000	25,000	(1,000)	(103,625)
The above advanced or (deferred) taxes would cost or (save) the company at an interest rate of 4 per cent:					
To Sept. 15, 1960.....	4,153	1,813	643	(526)	(5,145)
Each succeeding year..	3,120	1,040		(1,040)	(5,145)

* Except for the June 15, 1959, advances, the same amount of advanced or (deferred) tax payments would be repeated on like dates of subsequent years.

THE EFFECT OF CHANGING TO A FISCAL YEAR ENDING JUNE 30

	Assumed income for the six months ended June 30, 1959				
	$800,000	*$600,000*	*$500,000*	*$400,000*	*$200,000*
Federal income taxes advanced or (deferred) for a period of three months from:*					
Sept. 15, 1959........	$103,000	$ 51,000	$ 25,000	$ (1,000)	$ (53,000)
Dec. 15, 1959........	206,000	102,000	50,000	(2,000)	(106,000)
Mar. 15, 1960........	156,000	52,000	—0—	(52,000)	(156,000)
June 15, 1960........	106,000	2,000	(50,000)	(102,000)	(206,000)
Sept. 15, 1960........	156,000	52,000	—0—	(52,000)	(156,000)
The above advanced or (deferred) taxes would cost or (save) the company at an interest rate of 4 per cent:					
To Sept. 15, 1960.....	5,710	2,070	250	(1,570)	(5,210)
Each succeeding year..	6,240	2,080	—0—	(2,080)	(6,240)

* Except for the September 15, 1959, advances, the same amount of advanced or (deferred) tax payments would be repeated on like dates of subsequent years.

THE EFFECT OF CHANGING TO A FISCAL YEAR ENDING SEPTEMBER 30

	Assumed income for the nine months ending September 30, 1959				
	$1,000,000	*$900,000*	*$750,000*	*$700,000*	*$600,000*
Federal income taxes advanced or (deferred) for a period of three months from:*					
Dec. 15, 1959	$ 102,500	$ 76,500	$ 37,500	$ 24,500	$ (1,500)
Mar. 15, 1960	155,000	103,000	25,000	(1,000)	(53,000)
June 15, 1960	105,000	53,000	(25,000)	(51,000)	(103,000)
Sept. 15, 1960	105,000	53,000	(25,000)	(51,000)	(103,000)
Dec. 15, 1960	155,000	103,000	25,000	(1,000)	(53,000)
The above advanced or (deferred) taxes would cost or (save) the company at an interest rate of 4 per cent:					
To Sept. 15, 1960	3,625	2,325	375	(275)	(1,575)
Each succeeding year	5,200	3,120	—0—	(1,040)	(3,120)

* Except for the December 15, 1959 advances, the same amount of advanced or (deferred) tax payments would be repeated on like dates of subsequent years.

Incidentally, the client for whom the original study was made did not change its fiscal year. The next company considering a change may find a favorable result from forecasting federal income tax payments on the basis of a different fiscal year or possibly the projected results, if unfavorable, will not be a major factor in weighing the advantages and disadvantages of a change in years.

Honoring the retirement of Miss Niara Booker (center) of the San Francisco office.

Cost Consciousness Through Cost Control

By J. Walker Voris (*Los Angeles Office*)

The recent paradoxical situation of inflationary trends continuing through a period of economic recession should give us food for thought. During the past several years, many companies have experienced substantial increase in gross income without corresponding increase in net profit. Then, when sales declined, profit margins were again squeezed as certain cost elements continued to increase. It is becoming apparent that, if a company is to maintain its competitive position, increased sales efforts must be augmented by cost reduction programs.

There are many approaches to cost reduction, and the selection of one does not preclude the use of others. Programs for factory automation and improvement in production methods are completely compatible with cost-control programs. In fact, cost-control programs can be most effective in an atmosphere of technological improvement, as they tend to highlight areas where automation or development of new methods might be advantageous.

For purposes of this article, cost control is defined as a continuing program for evaluation of achievement having the following characteristics:

1. The measurement of performance by comparison of actual costs with the operating plan;
2. The timely reporting of performance to those directly responsible; and
3. The investigation of reasons for differences between actual costs and the operating plan.

The basic techniques of cost control have been used by many companies, with varying degrees of success. While many factors are involved, the one which seems to have the most bearing upon the program's success or failure is its ability to create cost consciousness at the worker level.

PROGRAM FOR ACHIEVING COST CONTROL AND COST CONSCIOUSNESS

Although this article is directed primarily to the control of production costs, many of the principles apply also to the control of selling and administrative expense.

The program for achieving cost control and cost consciousness, which is discussed herein, is based upon the following principles:

1. The operating plan and the recording and reporting of costs are based upon responsibility;
2. Performance is measured by comparison with standards;
3. Achievement is reported to the responsible operating supervisor; and
4. Explanations of variances between actual costs and standard costs are requested by superiors.

This last principle is not strictly necessary to achieve control of costs, inasmuch as the analysis of variances can be performed effectively by cost accountants. However, in a program designed to create cost consciousness, it is vital that this principle be followed.

RESPONSIBILITY ACCOUNTING

The first principle of creating cost control and cost consciousness is responsibility accounting. The concept of responsibility accounting, whether integrated with a cost-control system or not, is gaining wide acceptance. It is becoming recognized that middle and lower levels of managment hold the key to effective operations.

Most traditional cost-accounting systems are directed toward establishing product costs, whether by job cost, process cost, or other bases. Usually, such systems are not designed to report costs to those responsible for incurring them, or, if reported, they bury such costs in a mass of allocations.

To achieve full benefit, responsibility accounting should begin at the lowest management level. While usually this is the foreman level, frequently it is found advisable to include leadmen in the group. The program continues through each succeeding supervisory level.

It is basic to the concept of responsibility accounting that an operating supervisor be charged with the responsibility for all costs which he can control. He is not held responsible for costs which he cannot control, such as fixed charges and general overhead.

Costs which can be controlled by a supervisor include many indirect costs, as well as direct costs. For example, payroll taxes, employee benefits, and similar costs have direct relationship to the payroll; and charges for maintenance, material handling, and other services usually vary with activity and efficiency of opera-

tions. In general, if a cost varies with the activity of a department, that cost can be considered controllable in that department.

Although we refer to fixed charges, as contrasted with controllable costs, all costs are controllable at some level. For example, property taxes and insurance are usually considered as fixed charges. Yet, taxes and insurance on inventories vary with amounts of inventories and thus are controllable by the person setting inventory levels. Similarly, taxes and insurance on equipment (and also depreciation) are controllable at the level of responsibility which authorizes, or recommends for board of directors' action, the acquisition of equipment.

The act of charging an operating supervisor with the responsibility for controlling costs does not necessarily make him responsible. Obviously, he should be provided with management tools, such as those outlined in succeeding sections. But, more important, if cost consciousness is to be achieved, he should have a part in designing the plan under which he is to operate.

To achieve this objective, the responsibility for preparation of preliminary budgets and other data required for forward planning should extend to supervisors at the lowest operating level. To assist them, they should be furnished information about prior costs and plans for the future, but it may defeat the purpose if a suggested budget, which they can "rubber stamp," is provided. Likewise, nonclerical assistance by the budget or cost-accounting staff should be kept to the minimum.

Because these preliminary budgets become a part of the budget at the next succeeding level of responsibility, it is inevitable that changes will be made. However, if such changes are discussed with and approved by the supervisor preparing the preliminary budget, the responsibility remains with the supervisor. In the same manner, changes reflected in the final budget and operating plan should be reported back so that each operating supervisor knows why changes have been made. Thus, the budget represents the acceptance by the supervisor of the responsibility for operating his department or section within the over-all plan.

Likewise, if operating supervisors are charged with the responsibility for reviewing and approving performance standards established by company or consulting engineers, the probability that such standards will be accepted as measures of departmental performance will be substantially increased.

MEASURE OF ACHIEVEMENT

The second principle of achieving cost control and cost consciousness is the measurement of performance. In order to measure performance, there must be some yardstick. Comparison of costs with the budget gives a degree of measurement. In the case of indirect costs, this is the principal technique available; however, this over-all comparison does not give sufficient information for cost-control purposes.

To properly measure performance, it is necessary to establish standards for each element of direct cost. These standards should include material usage, as well as direct labor. They should recognize labor lost in producing scrap or rejects, as well as material lost, and should be established for each operation.

Standards developed for cost-control purposes do not differ from those developed for product-costing purposes, except that, where "ideal" standards are used, anticipated variances between the ideal and the actual should be reflected in product costing.

Ideal standards are set by time studies or other techniques and establish the level of productivity at that of a good workman operating efficiently. Engineered standards which reflect expected inefficiencies are also useful but may not have the same psychological effect upon the workers or supervisors. It is too easy to become satisfied with 100% efficiency.

For cost-control purposes, use of standards based upon historic information are generally ineffectual, as they tend to perpetuate inefficiencies.

As previously indicated, the budget serves as a standard for measurement of an indirect cost; however, to serve as an effective tool, the budget must be flexible, and the factors which give it flexibility must have been determined for the specific cost center.

REPORTING ACHIEVEMENT

The third element in the creation of cost control and cost consciousness is the reporting process.

Cost-control reports can be divided, roughly, into two types: those covering direct costs and those reporting indirect and total costs.

One of the most important reports for achieving cost consciousness is the daily report, comparing actual direct labor or machine time with standard, either in hours or dollars, or both.

The emphasis is on the word "daily." Although weekly, or less frequent, reports may appear reasonably effective under certain circumstances, the result may be that cost consciousness becomes a weekly, or less frequent, occurrence. Cost consciousness should be an attitude, not an occurrence.

It is preferable that the daily report list each worker and each job and operation performed, so that individual performance is rated. When individual reporting is not feasible, care should be taken to establish group reporting which is detailed enough to permit the supervisor to establish the reason for variances.

Most effective cost-control reports are simple. Frequently, reporting only actual hours, standard hours, and variances, expressed as a per cent of efficiency, is more useful than reporting dollars, or hours and dollars.

In operations where substantial amounts of scrap are produced, a daily material-usage report is important. Frequently, this report is more effective if presented as a scrap report rather than as a material-usage report. Actual scrap is compared with the standard scrap allowance, and the variance is expressed in units or dollars. If the value of the material is high, a dollar comparison is valuable.

If large amounts of manufacturing supplies are consumed in the process, and the amounts vary with the unit of production, consideration should be given to daily reporting of such usage against standards in the same manner as the reporting of direct materials.

To be effective, daily reports should be issued early enough on the following day for the supervisor to make inquiries about variances before the end of the shift. When reports are issued later than the day following a circumstance which creates a variance, the circumstance may be forgotten.

In line with the precepts of responsibility accounting, daily reports to the lowest management level should be summarized for supervisors at the next level, giving cost-center totals only. These reports should be summarized, in turn, for the next higher management level.

If indirect labor, manufacturing supplies, and other indirect costs are significant and vary with production, weekly reports of such costs may prove to be of sufficient value to warrant the cost of their preparation.

Total costs should be reported monthly. Reports which com-

pare actual direct costs with related standard costs, and indirect costs with budget amounts, are most valuable, as they serve to recapitulate the daily reports of direct costs as well as to record the effectiveness of control of indirect costs by comparison of actual costs with the budget. Inclusion of noncontrollable costs tends to confuse lines of responsiblity and should be avoided unless there is a real reason for showing them. Under any circumstances, they should follow the total of controllable costs and be clearly segregated. If "ideal" standards are used, the direct-cost section of the report may also give effect to anticipated efficiency variances so that variances in excess of those budgeted will be segregated.

Report format is important if reports are to serve to the fullest extent in generating cost consciousness. As with daily reports, simplicity should be the keynote. Shop terminology, rather than accounting classifications, should be used. Unfavorable variances should be set forth in a separate column, or otherwise be clearly identified. Likewise, favorable variances should be recognized if they are significant.

In preparing reports for each succeeding level of responsibility, reports of lower-level performance should be summarized in a manner which would permit over-all review of achievement of subordinates and, also, bring significant variances to the attention of the supervisor or manager. Detail of costs, controllable at each level, should be added to these costs, in order to present all costs for which the supervisor or manager is responsible.

REQUESTS FOR EXPLANATIONS

The fourth principle of obtaining cost control and cost consciousness is a continuing system for requiring operating supervisors to explain variances. As stated previously, this principle is vital in a program designed to create cost consciousness.

In theory, requests for explanations of variances should begin at the top and work down. In actual practice, requests from those above may be anticipated and explanations obtained in advance.

The cost accounting department can be of great assistance to operating supervisors in obtaining explanations of variances, particularly in defining variances which are anticipated. (If these variances are excluded, the work of the supervisor can be limited to determining the cause of unfavorable variances which might be

controlled in the future.) However, great care should be taken to avoid usurping the supervisor's responsibility for obtaining explanations.

As a cost-control program continues, it is frequently found that individual workers start keeping records of conditions which cause unfavorable variances. When they start thinking about unfavorable variances, they start trying to avoid them. Cost consciousness has been born.

INCENTIVES

The program for cost control can be augmented by incentive plans, with little or no change in basic principles. Such incentive plans may be based upon individual or group accomplishment. They may be for productive labor efficiency or for management achievement, or for both.

Some companies have found that cost savings, resulting from incentive or profit-sharing plans, have continued for years. Others have found that savings disappear rapidly and only the problem of administering the plan remains. Although incentive plans should be considered in planning a cost-control program, they should not be deemed an integral part of it. Under any circumstances, incentive plans should be deferred until the program is operating smoothly and standards have been proved.

A cost-control program, in itself, creates incentives. The measurement of performance, whether of an individual worker or a group, separates the good worker or supervisor from the mediocre. It gives the good worker the assurance that his achievement is being recognized, and he tends to improve his performance. An inefficient worker, finding the spotlight turned upon his performance, fears dismissal and attempts to raise his efficiency to an acceptable level.

Frequently, cost-control programs create healthy competition among workers and among departments. An outstanding example is the case of a worker who regularly produced 1,200 units a day under a liberal incentive plan. When his position as top producer was threatened by a college student employed for the summer, he increased his production to 1,600 units a day.

Needless to say, all methods of recognizing achievement should be explored. The pat on the back by a superior can be supplemented by public recognition. Names of the most valuable work-

ers can be posted on bulletin boards or listed in the house organ. Mementos can be presented to the most consistently valuable workers at dinners held for that purpose. These and similar methods are inexpensive in relation to the workers' self-esteem which they build. Such a program can be correlated with an employees' suggestion program, to create and maintain an atmosphere of cost consciousness.

INTEGRATION WITH ACCOUNTING SYSTEM

Let us consider now the relationship between a cost-control program, as outlined, and the rest of the accounting system.

A cost-control program can be designed to be independent of other accounting procedures. However, obtaining assurance that data has been recorded correctly is usually less work if the cost-control program is an integral part of the accounting system.

Data provided by a cost-control system can be accumulated to obtain product costs which are more accurate than those produced by other costing methods. If desired, job-cost reports, showing both actual and standard costs, can be provided. However, the value of such reports diminishes as assurance is obtained that operations are controlled through the media of daily operating reports. There appears to be little or no excuse for not integrating cost-control into the accounting system.

SUMMARIZATION

To summarize briefly, cost consciousness is the most important factor in a cost-control program. The elements which help to create cost consciousness are:

1. Responsibility accounting;
2. Establishing performance yardsticks;
3. Reporting achievement; and
4. Investigating variances.

Cost consciousness, when carried to the level of the individual worker, can pay substantial dividends in reduced production and overhead costs.

Tax Planning for the Corporate Official*

By Samuel F. Mirandy

The past 10 or 20 years represent an era of more-than-average business prosperity. Whereas one would expect the economic lot of the corporate official to be considerably enhanced under these circumstances we find, as an offsetting factor, that he has been confronted with the highest federal individual tax rates in our history. Man's natural inclination to gather a sizeable estate, seemingly attainable in view of the substantial amount of gross income passing through his fingers, is therefore thwarted more often than not by the heavy tax bite.

Marrying into, or inheriting, a fortune still remains the simplest way to attain financial independence. Unfortunately, such opportunities are either too limited or no longer available to the average individual. Some officials, either through fortuitous circumstances or because they seem gifted with the legendary Midas touch, have acquired reasonable fortunes through profitable investments. Since the latter group also represents a small percentage, the only alternative generally available to the average executive is to take advantage of tax opportunities or gimmicks which will legally reduce the tax burden in his situation.

Our high tax rate structure serves to stifle incentive among many taxpayers; to others it is a challenge to their ingenuity. The axiom "necessity is the mother of invention" is a cogent factor to be reckoned with in the solution of taxpayers' problems. Congress is well aware that a tax system based on high rates inevitably produces a greater variety of techniques to circumvent or minimize it. In at least one instance, involving stock options, Congress has seen fit to bestow specific sanction upon a favorable opportunity. The fact that it has not sought loophole-type legislation in some of the generally accepted tax-minimizing areas may imply either belief that a relatively nominal amount of revenue is involved or tacit recognition that our economy can best operate under the present excessive rates with reasonable latitude or elasticity on questions involving such benefits.

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*This paper was presented on February 18 at the meeting of the Brooklyn Chapter of the National Association of Accountants.

Although the methods for minimizing the corporate official's tax are accepted as more or less commonplace in our business world, variations are forever coming to the surface. The following observations will touch upon problems or questions which concern the individual in his efforts to capitalize on tax opportunities in such areas as deferred compensation, stock options and other stock purchase arrangments, reimbursed expenses and life insurance protection.

Deferment of Compensation

The objective of deferred compensation is to shift the receipt of the individual's current earnings to a subsequent period with an anticipated more favorable tax climate. As the name implies, deferment of compensation is an arrangement between the employer and employee whereby the latter renders services today in consideration for a promise by his employer to pay him a stipulated amount in the future. The customary arrangement provides for the payments to be made over a period of years, preferably after retirement, either in cash or stock or a combination of both. In most cases payments are to be continued to the estate or beneficiary for the scheduled period in the event of the employee's death. This minimizes reporting of substantial income by the recipient in one taxable year.

A deferred pay plan can be applied to any corporate situation. It can usually be counted upon to provide reasonable assurances of worthwhile post-retirement benefits. In view thereof it is somewhat surprising that only one-third of our major corporations, comprised of the group of companies reporting to the Securities and Exchange Commission, used deferred compensation plans for top level executives in 1957. Such indicated reticence on the part of management may be attributed to either (1) a desire to place their hands upon all possible cash, despite the immediate tax consequences, or (2) a reluctance to admit in any fashion that a portion of their income is not essential to their current needs and might perhaps be deferred, or (3) an unwillingness to accept the risk, however small, that postponement of the receipt may result in its ultimate loss.

Concern about possible loss of the deferred amount is accentuated perhaps by the fact that deferred pay contracts usually include contingency provisions, designed to protect the individual from a possible allegation by the Treasury that the income was

tructively received and therefore subject to tax currently. Under these provisions future pay-outs are made contingent, as to payment and possibly as to amount, upon the occurrence or non-occurrence of specified events such as continued employment, availability for consultation and agreement not to compete. The related risks could be traced to such reasons as:

a. The necessity for being committed to his present employment, at least until normal retirement age. Making future payment contingent upon continued employment freezes the employee to this job, particularly where the deferred amount is substantial.

b. Future business losses might seriously deplete available funds and perhaps even cause a termination of the business.

c. The possibility that future management might prove hostile and seek to avoid payment under any pretext it could find under the contingency clauses.

d. The need for airtight protective clauses in the event of future mergers transfers, etc.

The customary initial reaction is to avoid the contingency provisions and compel the employer to fund the deferred pay. However, funding an unqualified deferred compensation plan is somewhat ineffective and rather risky. The parties must refrain from any attempt to deposit the deferred amount with an outside party such as a trust or an insurance company for the official's exclusive benefit. This results in either immediate tax recognition to the employee or possibly ultimate denial of the deduction to the employer, either of which would be unacceptable.

Some companies will fund a deferred pay contract through insurance. The related circumstances are such, however, that the insurance contract does not provide the individual with the ultimate guarantee he is seeking. To prevent income recognition to the individual, it is essential that the corporation be the sole owner of the policy. As the result thereof it is necessary to avoid conditions or clauses, either in the insurance contract or the deferred pay contract, that might be construed as providing the official with an interest in the policy. To meet the test followed by the courts the policy or its proceeds must be capable of being reached by the corporate creditors, if necessary. Such funding represents nothing more than a plan whereby the corporation invests the deferred pay net of related future tax benefit in current insurance premiums. This program provides the employer with insurance proceeds to finance future deferred compensation payments. The related advantage to the individual is the expectation that future financial

strain on his employer will be reduced, thereby facilitating pay-outs as scheduled under his contract.

Deferred compensation arrangements are often designed for a group of employees. If desired, the terms of a group plan can be flexible and adapted to the varying needs or wishes of the individual members of the group. For example, each executive could be allowed to make an election as to whether he wished deferral applied in his case and, if so, how much. Where widely fluctuating bonuses are involved there may be a desire to stabilize current aggregate compensation. This can be achieved by fixing the deferrable portion at an amount which exceeds a designated per cent of the executive's base salary.

There has been increasing interest within recent years in deferment programs which involve a distribution of the company stock. Since the number of shares to be distributed is fixed when the compensation is earned, these plans create further incentive because the participant benefits directly in the appreciation in value of the stock during the period prior to his retirement. The executive is permitted in this manner to acquire, without reducing to immediate possession, what may be tantamount to a significant stock interest which he could not otherwise afford if he had to finance the purchase from his earnings after taxes.

Under a deferred stock bonus plan current bonus earnings are allocated to executives but not paid out directly. The earned amount is credited to special accounts in the form of share equivalents determined by dividing the bonus by the current market value of the company's shares. Treasury stock may be set aside for this purpose but this is not mandatory. In some instances the company will use the bonus amount to purchase treasury stock which is earmarked for the benefit of the executive group. Such earmarked shares, whether initially purchased and set aside or merely designated as credits to special accounts, together with their dividend increments throughout the intervening period are distributed to the employee or his estate in 10 or 15 annual installments subsequent to retirement. The dividend increments paid in cash at the time the stock is distributed help finance income tax payable by the recipient. A drawback to this plan is that the recipient must report appreciation as ordinary income. However, the tax effect is minimized by spreading payments over a number of periods. Decrease in value has the reverse effect in that it reduces ordinary income otherwise reportable.

In an attempt to overcome ordinary income recognition of the appreciated security value a variation of the foregoing arrangement has been introduced whereby the executive is allowed to integrate a portion of what might otherwise represent a stock bonus with a restricted stock option. Integration is accomplished by concurrently providing the employee with a restricted stock option for ten years covering, let us assume, twice the number of shares represented by the units or share equivalents set aside for him under the stock bonus plan. When, as, and if the stock option is exercised the shares originally credited to his account would be reduced by one-half unit for each share acquired under the option. Significant market appreciation will enable the executive to reap greater advantage by foregoing the stock bonus and exercising the stock option. Although exercise of the option involves a capital investment, such cash outlay is compensated for by the fact that twice as many shares are involved and the executive is able to acquire appreciated securities on favorable terms without current recognition of income. His ultimate profit, when recognized, will be reported as capital gain.

Pay deferment might involve postponement of its receipt for a considerable number of years. What precautions can or should be exercised to protect the individual against the possible inability of the economy to arrest or restrain inflation? Whether this risk belongs with the company or the executive is a matter to be decided by the respective parties. However, assuming a willingness to provide some protection along these lines, the following possibilities could be considered:

1. Have the deferred compensation payable in company stock rather than a fixed dollar amount. The number of shares to be distributed would be pegged to the value prevailing at earlier date when compensation was earned. In the event of an inflationary spiral the value of the shares will probably have increased correspondingly.

2. Provide for adjustment of future deferred payments to reflect variances indicated by subsequent changes in the Bureau of Labor Statistics Consumer Price Index. The adjustments would presumably work in either direction if this technique were to be adopted.

3. Substitute for the Bureau of Labor Statistics Index an index reflecting increases over present salaries paid for the same executive position in the company. This could be limited to upward adjustments only. Extreme care would be necessary in identifying similarity of position.

4. If the executive is willing to forego the stipulation of a fixed amount, provide that payment of deferred compensation throughout the selected pay-

out period will be measured by corporate earnings for a specified number of shares during the corresponding future period. Protection is based on the assumption that corporate earnings would increase proportionately with changes in the price level. It may be desirable, however, to guarantee minimum amounts to guard against decline of future profits.

The qualified profit sharing plan is, by itself, rarely sufficient to take care of the executive's requirements with respect to deferred income since amounts set aside annually for his benefit usually will not exceed 15 per cent of his compensation. Lack of wider acceptance for the profit sharing plan stems from the fact that Treasury qualifying requirements may compel too wide an employee participation in order to overcome objections as to possible discrimination. The ideal over-all compensation arrangement is one which embraces both the qualified profit-sharing plan and a deferred compensation arrangement for the key executives. This insures the availability of the many benefits under a qualified profit sharing plan.

One feature of the qualified profit sharing plan of importance to the key executive is the possibility of capital gain treatment in the event he receives his benefit as a lump sum distribution. It is necessary, to secure this favored treatment, that the full balance to the executive's credit be paid within one taxable year and on account of the executive's death or other separation from the service of the employer. Should the individual also hold a deferred compensation contract with contingency provisions involving consultation services it is imperative, to secure capital gain benefits, that payment be deferred as long as the former executive is still considered an employee of the corporation.

Capital Gain Opportunities

The corporate employee has a decided advantage in that he may be provided capital gain opportunities under a variety of stock purchase arrangements. Many employers rely upon this as a forceful incentive. Conventional arrangements for providing employees with a current stock interest involve (1) a combination of cash and stock bonus (2) purchase of stock on an installment basis (3) acquiring stock interest in a newly-formed organization, and (4) the restricted stock option.

The combination cash and stock bonus plan is extremely simple. Although the stock bonus permits the employee to acquire an immediate stock interest he must also receive a sufficient amount

of cash to pay the tax on the aggregate income. High tax rates diminish its effectiveness except when utilized among lower-income executives.

The installment stock purchase plan is attractive in that it permits immediate holding of a stock interest on favorable credit terms. The purchase is usually financed through payroll withholdings. Company holds stock as collateral. Resulting earlier ownership of the stock means earlier participation in dividends and potential appreciation. Dividend increments, although taxable to the executive, may be applied, net of tax, against purchase price so as to reduce out-of-pocket cost. Management is usually hesitant about an installment purchase plan involving significant open balances because of obvious repercussions in the event of a market decline. A series of stock purchases in smaller lots serves to reduce such risks.

The technique for potential capital gain involving shares of a newly-formed corporation is more common in situations where the prospective stockholder is in a position to render services to the new corporation on a somewhat favorable basis. The film and television industries are outstanding exponents of this type of plan.

The most widely accepted stock incentive plan within recent years has unquestionably been the restricted stock option. Most of the listed companies have adopted such a plan and some companies have adopted a series of such plans. Because the executive is afforded a waiting period which may extend as much as ten years he can minimize the risk of market fluctuations before committing his personal funds.

A vexing problem often confronting the executive with a restricted stock option relates to the financing phase. The 90 per cent margin requirement imposed by the Federal Reserve Board is binding on domestic banks as well as brokers and security dealers, making it virtually impossible to borrow enough funds to finance the acquisition solely in this manner. Should financial circumstances enable him to provide collateral from sources other than the stock which he intends to acquire under option the margin requirements may be ignored. Foreign banks apparently can make loans without the restrictions imposed by the margin requirements. Although the employer corporation might be willing to extend credit, particularly when secured by adequate collateral, the laws of many states will prevent the corporation from making loans to its officers. Strangely enough the insertion of credit terms

under the basic option agreement might be permissible in some of these states. If such is the case, the corporation and its officers would be well-advised to consider incorporating the credit features in the original terms of the option agreement since it may be impossible to do so later without running afoul of the tax requirements relating to modification of a restricted stock option.

Under the Securities Exchange Act officers and directors of the issuing corporation are considered "insiders" and are accountable to the corporation for profits realized by them on the purchase and sale, or sale and purchase, within any period of less than six months of any equity security of the issuer. Taxwise, the "insider" with the premature security profit finds himself in a quandary. Even though he is unable to retain the profit, the Treasury compels him to report it as income currently without deducting the repayment to the corporation. Such repayment is considered a penalty which, if allowed as a tax deduction, would frustrate the public policy expressed in the statute.

In his effort to raise sufficient cash to permit further exercise of option rights the official may sometimes find it expedient to dispose of some of his present share holdings in his company, followed by piece-meal acquisition of a larger number of shares under the option agreement. The SEC rule with respect to "insiders' profits" provides certain latitude in this instance. The SEC has issued a rule exempting, with a possible partial limitation, the acquisition of securities under a restricted stock option agreement from the application of the penalty provision. Such exemption is apparently based on a presumption that such purchase, made under the terms of an earlier agreement, could not be viewed as a transaction whereby the officer would be considered as capitalizing on market fluctuations by virtue of his position as an "insider." The validity of the SEC's rule exempting the acquisition of stock under these circumstances has been attacked in the courts by some stockholders. It is therefore essential that the official be guided by counsel whenever confronted with a question of this type.

An unfortunate aspect of the restricted stock option is the difficulty in applying the plan to a corporation where market value of its stock is not readily ascertainable. The option plan is not feasible unless there is reasonably conclusive assurance that the percentage of market value requirements specified in the statute have been complied with. However, an option opportunity could arise if shares are surrendered to the corporation by a stockholder

or his estate under circumstances indicating an obvious arm's-length consideration. In this event such shares, or additional shares, could be offered simultaneously to the employees at the same price, or 85 or 95 per cent thereof, thereby successfully meeting the percentage of stock market value qualification.

Reimbursed Expenses

The average employee seeks reinbursement for all business expense items incurred. The burden of high rates and the problem of substantiating the deduction in his return leaves little alternative. In some respects the present expense account economy might be an indication that some taxpayers are perhaps straining their conscience and, very often with the cooperation of their employer, obtaining reimbursement for non-business and possibly unsubstantiated items without proper tax reporting by the respective parties.

The recent crackdown by the Treasury on expense accounts was brought about by apparent abuses in this area. The Treasury attitude has been a major factor in the significant increase in credit card membership during the past two years. The competition among credit card organizations continues to the point where they are now introducing an omnibus credit card which will cover such items as transportation, travel services, amusement events and retailing. Although the credit card system provides evidence of the fact that an expenditure was made there seems to be an erroneous conviction in the minds of some taxpayers, fostered in many instances by the difficulty the Treasury encounters in its attempts to cope adequately with this problem, that proof of the expenditure is sufficient to warrant the deductibility thereof.

The Treasury was forced to retract from the stringent position it took in 1957 with respect to reimbursed expenses for that year. However, the Under-Secretary stated recently that if the present reimbursed expense arrangement does not work satisfactorily it might be necessary for the Service to take another approach to the problem.

The present income tax regulations for traveling and other business expenses include a new provision relating to tax return reporting and substantiation by employees. The rules prescribed therein state the circumstances in which it may be necessary to reflect further information in the individual's income tax return. This regulation also furnishes a guide as to the preferable method

for substantiating the supporting data, if required. For example, reimbursed incidental expenses incurred for purchase of office supplies or local transportation on an errand can generally be ignored for tax reporting purposes.

Reporting requirements differ depending upon whether the employee is required, or is not required, to account to his employer. Where the employee is not required to account for his business expenses he must report in his return the total of all amounts received as advances or reimbursements from the employer together with the amounts charged directly or indirectly to the employer through credit cards. The employee would thereupon report, with the burden of substantiating, items of business deduction in his individual return. Excess reimbursements are reportable as income, and excess expenses are deductible.

Where the employee does render an accounting to his employer we have three factual alternatives; reimbursements equal to expenses, reimbursements in excess of expenses and expenses in excess of reimbursements. In the first instance where reimbursements plus the amount charged directly or indirectly through credit cards or otherwise are equal to, but do not exceed, the business expenses paid or incurred by the employee, the latter is not required to furnish further data in his tax return. Where such reimbursements exceed the actual business expenses the individual must report such excess as taxable income and so state in his return. The latter seems somewhat facetious in that the Service apparently expects the employee to exhibit a degree of integrity in his return which he presumably failed to display in his account ing with the employer.

The third alternative, where expenses exceed reimbursements, requires further substantiation unless the employee decides he will not claim such excess as a deduction in his tax return. Where the employee intends to claim the additional expenses his tax return reporting requirement is indentical to the situation where there is no accountability to the employer for expenses. The individual reports the total of all reimbursements from, and charges to, his employer. He also reports the total amount of his business expenses for the year, including those charged to the employer through credit cards, etc., broken down into such categories as transportation, meals and lodging while away from home overnight, entertainment expenses and other business expenses. Presumably, the Treasury expects through such disclosure of total

expenses and total reimbursements to smoke out situations where the employee may be claiming a deduction for an item previously reimbursed. This reporting requirement seems to have drawn little attention thus far. Experiences in connection therewith are still insufficient to form any impressions as to how it will operate in actual practice.

Apart from the reporting phase another requirement confronting the employee claiming business expenses as a deduction relates to the necessity of satisfying the Treasury that such business expenses were not reimbursable by the employer. If reimbursable, the employee will not be allowed the deduction because they are not his expenses. To forestall this problem and minimize the individual's burden of proof it is desirable, whenever possible, to insert provisions in either the corporate minutes or the employment contract that the employee's compensation has been fixed at an amount sufficient to provide for those expenses which he may be reasonably required to make, without reimbursement, in the conduct of his official duties. Another possible solution which might be acceptable to the Treasury, depending upon the facts, is to secure a letter from a responsible corporate official to the effect that the nonreimbursement of such items is in accord with specific company policy.

Presumably the Treasury will call upon the taxpayer to substantiate expense account information in the following situations:

a. Where the taxpayer is not required to account to his employer.

b. Where the taxpayer's expenses exceed the amounts received through advances, etc., and the taxpayer deducts such excess in his return, and

c. Where there is a close relationship between employer corporation and the recipient.

Life Insurance Protection

Life insurance protection may be expensive but it is essential, particularly to the younger executive. Financing premium payments with after-tax income would, in most instances, make a worthwhile program prohibitively costly. The possibility of shifting this cost to the employer, coupled with the fact that life insurance proceeds escape income tax in the hands of the beneficiary recipient, has brought about a rash of tax-saving techniques centered on the life insurance contract.

The following illustrations represent four general types highlighting the more salient features of these programs. Under the

first type the company pays all the premiums and is the sole beneficiary; under the second the company pays all the premiums and the employee designates the beneficiary; under the third both employer and employee share in the premium cost and each is a co-beneficiary under the policy; under the fourth type of arrangement the employee pays the premium and also designates the beneficiary.

The first program under which the employer pays the premiums and receives the policy benefits is referred to as key-man insurance. The corporation takes out a life insurance policy on the life of the key employee, which becomes fully paid-up at age 65, the proceeds being payable to the corporation upon the death of the employee. By separate employment contract the corporation agrees to pay to the wife or other beneficiary of the employee, over a specified period of years after his death, an amount equal to the proceeds of the insurance less the premiums paid.

Although premiums are not deductible by the corporation they will be fully recovered from the proceeds of the policy upon death of the employee. The policy proceeds are not taxable to the corporation but it will be allowed a tax deduction for subsequent payments made under the employment contract. Since the source of these payments is the tax-free proceeds of the insurance contract, the resulting tax reduction represents a saving to the corporation which might well compensate for the previous use of its working capital.

Tax significance to the employee is nominal because the financial benefits under the employment contract will not be paid during his lifetime. Payments received by the wife or other beneficiary will be subject to estate tax and, to the extent that they exceed $5,000, also subject to income tax. The principal advantage to the employee is the availability of substantial insurance protection during the earlier years, the amount of such protection diminishing annually until age 65.

The second type of life insurance program under which the employer pays all, or at least most, of the premiums whereas the employee designates the beneficiary, involves group term life insurance. It probably represents the most significant of fringe benefits.

Its principal feature is that the premiums are deductible by the corporation as ordinary and necessary business expenses whereas the beneficiary of the employee need not recognize the benefits as income. To date the Internal Revenue Service has not attempted to upset this ideal tax situation.

Many states do not have a statutory ceiling as to the amount of group life coverage which can be provided. It is not mandatory that the coverage be reduced in later years but insurance companies usually recommend that it be done, particularly with respect to retired employees. Coverage cost for aged employees becomes prohibitive. However, some employers do continue group life protection on a modified scale for retired employees in the same manner as for other employees.

The third arrangement, under which both employer and employee participate in the payment of premiums and the receipt of benefits, is known as split-dollar life insurance.

Split-dollar life insurance is permanent plan individual life insurance, maintained with the insurance company under an agreement between the insured and his employer. The employer pays that portion of each year's premium equal to the increase for the year in the cash surrender value of the policy, in consideration for which he receives a beneficial interest in the policy equivalent to its cash surrender value. It follows, therefore, that the split-dollar insurance agreement is basically nothing more than an interest-free loan from the employer to the employee.

The employee pays the balance of the premiums. His cost is significant only in the first few years of the policy with little or no cost in the later stages. Life insurance protection is made available in a maximum initial amount equal to the face value of the policy, decreasing yearly as the employer's equity, or the cash surrender value, accumulates.

A possible drawback is the fact that the employee's cost is considerable in the first few years. If premium payments during the earlier years are a financial burden it may be desirable for the company to provide financial assistance. This might be in the form of a low-interest loan under the terms of which the employee could more evenly distribute his total share of the premium costs throughout the policy period.

The fourth arrangement under which the employee finances the premiums and has full control of the benefits is referred to as "bank-financed" life insurance. This arrangement has particular appeal to the younger executive with current income exposed to high tax rates. Basically, this plan is the alternative to the split-dollar method in the event that such favorable financing through the employer is unavailable.

The executive takes out the ordinary life policy and after the

second year will borrow from the insurance company or a bank to the extent of the annual increase in cash surrender value. The tax deduction for the interest will reduce the cost of carrying the policy. This interest should not be confused with interest on loans incurred or continued to pay for either a single premium insurance policy or one in which substantially all the premiums are paid within four years from the date of issuance. The tax law specifically denies the interest deduction in the two latter instances.

The amount of insurance protection provided is the same as in the case of the split-dollar life insurance. Once again, it may be desirable to negotiate favorable long-term loans to help finance the first two or three annual premiums.

Associated with the four basic programs are the following general characteristics, stemming from the underlying objective to provide the employee with the maximum insurance protection at minimum cost to himself and his employer:

a. Unless the employer obtains a tax deduction for the premiums, there is usually an arrangement whereby the employer will recoup his premium outlay from the eventual policy proceeds.

b. More worthwhile protection can be purchased for the individual with the available dollars by providing greater benefits in the earlier years with a reduction thereof in the subsequent years.

c. The cost, if any, to the employee is kept to a minimum through favorable borrowing terms and the deductibility for tax purposes of any interest he may be required to pay on his debt.

Speaking Engagements

Date	*Speaker*	*Organization*	*Topic*
Oct.			
2	M. B. T. Davies, Tulsa	Midwest Regional Conference of I.I.A., Dayton, Ohio	Reducing Costs in a Period of Business Recession
2-3	Joseph J. Hyde, San Francisco	California Society of C.P.A.s, Ninth Annual Tax Conference, San Francisco	Panel Member—Corporate Organizations, Reorganizations and Dissolutions
3	Donald E. Beattie, Dallas	Texas Society of C.P.A.s, Dallas and Fort Worth Chapters, Conference on Management Services	Ethics and Informing Clients of Services by C.P.A.s
3	John M. Sullivan, Washington	Chicago Tax Club's Fifth Annual Seminar	Fixed Asset Accounting and Depreciation
6	George S. Shegog, New York	American Management Association, Washington, D. C.	Public Accountants' Viewpoint on Internal Auditing
6-7	Joseph J. Hyde, San Francisco	California Society of C.P.A.s, Ninth Annual Tax Conference, Los Angeles	Panel Member—Corporate Organizations, Reorganizations and Dissolutions
8	James E. Meredith, Jr., Philadelphia	University of Pennsylvania, Wharton School and Computer Center	Moderator of Symposium—The Electronic Horizons in the Insurance World
8	Godfrey W. Welsch, Dallas	Tax Executive Institute, Dallas Chapter	Current Status of Oil Payment
9	M. B. T. Davies, Tulsa	Seventh Annual Southwest Regional Conference, Shreveport, La.	The Auditor and the Profit Planning Function
9	Herman Stuetzer, Jr., Boston	Massachusetts Society of C.P.A.s, Boston	Massachusetts Corporation Excise
10	Mrs. Margaret White Nally, New York	American Women's Society of C.P.A.s and the American Society of Women Accountants Annual Meeting, Detroit	Technical Amendments Act and Small Business Tax Revision Act of 1958
10	Donald W. Schroeder, San Francisco	Pacific Southwest Credit Conference, Building Material and Construction Group, San Francisco	Questions You Should Ask About a Contractor's Financial Statement
11	John W. Heastings, Pittsburgh	Delta Pi Epsilon, Western Pennsylvania Teachers' Convention	Internal Revenue Code—Benefit to Teachers
11	Eugene F. Warren, Cincinnati	University of Dayton Tax Institute	Year-End Tax Tips
12-15	Clifford W. Stowe, Washington	American Institute of C.P.A.s, Annual Meeting, Detroit	Moral Responsibility in Tax Practice
13	John J. Fox, Detroit	University of Michigan	Procedures Manuals
13	James J. Mahon, Jr., Philadelphia	American Gas Association, Atlantic City	The Current Tax Picture
14	Mark E. Richardson, New York	American Institute of C.P.A.s, Annual Meeting, Detroit	Panel Member—Moral Responsibilities in Tax Practice
15	James J. Mahon, Jr., Philadelphia	N.A.A., York, Pa. Chapter	The Current Tax Picture
15	H. E. Magnusen, New York	New York State Society of C.P.A.s, Nassau-Suffolk Chapter	Reporting Standards in Light of Statements on Auditing Procedures No. 27 and No. 28
16	Kenneth J. Mutzel, Philadelphia	Pennsylvania Institute of C.P.A.s, Reading Chapter	Small Business Aspects of Technical Amendments Act of 1958

Date	*Speaker*	*Organization*	*Topic*
Oct.			
16	William W. Ragsdale, Jr., Birmingham	N.A.A., Jackson, Miss.	Internal Control
17	James E. Gelbert, Pittsburgh	Pennsylvania Institute of C.P.A.s, Pittsburgh Chapter	Estate Planning
17	Paul F. Halloran, Birmingham	Southeastern Credit Conference, Birmingham, Alabama	Pertinent Disclosures to Financial Statements
17	Earl W. Reynolds, Detroit	Wayne State University	New Developments in Auditing Procedures
21	Claude R. Giles, San Francisco	California Society of C.P.A.s, Fresno Chapter	Qualifications in Audit Reports
21	James E. Meredith, Jr., Philadelphia	N.A.A., Hartford Chapter	Direct Costing
21	Herbert H. Schueller, New York	New York State Society of C.P.A.s, Hunter College	Other Provisions Affecting Corporations
21	Frank P. Smith, New York	American Management Association New York	Control Systems
22	Claude R. Giles, San Francisco	Bankers-C.P.A.'s Seminar, San Francisco	A C.P.A.'s Comments on the Auditor's Long-Form and Short-Form Reports
22	John C. Padgett, Cleveland	Institute of Internal Auditors, Cleveland Chapter	Panel Discussion—Coordination with Public Accountants
22	Charles H. Towns, New York	N.A.A., Brooklyn Chapter, Pace College	Discussion Forum—Accounting for Consolidations
22	Godfrey W. Welsch, Dallas	Texas Technological College Tax Conference	Income Tax Aspects of Estate Planning
23	Dallas Blair-Smith, New York	Advertising Club, Federal Tax Forum, New York	Amendments to Section 481, Changes in Accounting Methods
23	Leo V. Tinkham, Chicago	The Illinois Society of C.P.A.s, Chicago	Exceptions in Auditors' Opinions
24	Mark E. Richardson, New York	North Carolina Association of C.P.A.s, Chapel Hill	Current Problems in Federal Income Taxation
25	Paul D. Yager, Washington	American Society of Women Accountants, District of Columbia Chapter	1958 Legislative Developments in the Federal Taxation of Individuals and Corporations
27	Herbert G. Bowles, Los Angeles	California Society of C.P.A.s, Los Angeles Chapter	Society Co-operative Activities with Credit Grantors
27	Donald V. Brondyke, Detroit	N.A.A., Detroit Chapter	Discussion Forum—Cost Reduction Through a Profit Improvement Program
27	Walter R. Staub, New York	New York University, Graduate Study Conference	Some Current Accounting Problems
28	Felix Kaufman, M.S.R. & C.D.	National Machine Accountants Association, Cincinnati	Developments in E.D.P.
28	Leo V. Tinkham, Chicago	Kalamazoo Accountants Association, Kalamazoo, Michigan	Tax Problems Involved in Personal Financial Planning
29	Willis K. Waterfield, Cincinnati	Ohio Society of C.P.A.s, Cincinnati Chapter, and representatives of Cincinnati banks	Moderator of session on Financial Reporting
30	Willis K. Waterfield, Cincinnati	Ohio Society of C.P.A.s, Cincinnati Chapter and Cincinnati Credit Association	Financial Reporting
31	William T. Barnes, Washington	American Management Association Seminar, New York	Renegotiation of Government Contracts and Subcontracts

Date	*Speaker*	*Organization*	*Topic*
Nov.			
1	John McCullough, Detroit	Ninth Annual Institute on Accounting, Lexington, Kentucky	Tax Planning for 1959
3	Joseph J. Hyde, San Francisco	Barristers Club Tax Section, San Francisco	Tax Aspects of Leasing as Compared with Buying
5	Robert W. Davis, Paul M. Whitman, Cincinnati	Ohio Society of C.P.A.s, Cincinnati Chapter, Annual Students Night Meeting, Miami University	Careers in Public Accounting
6	John J. Fox, Detroit	N.A.A., Cleveland	The Goals and Tools of Cost Accounting
6	Raymond E. Graichen, Philadelphia	Pennsylvania Institute of C.P.A.s, Philadelphia Chapter, Tax Forum, Drexel Institute	Accounting Periods and Methods
6	Herman C. Heiser, M.S.R. & C.D.	Controllers Institute of America, Philadelphia Control	Automation for Scientific Management
6	Herman Stuetzer, Jr., Boston	New York University, Institute of Federal Taxation	Discharge of Indebtedness at a Discount
6	James L. Wamsley, Cleveland	The Builders Exchange, Cleveland	Overhead Cost Records Pertaining ing to Construction Industry
7	Raymond E. Graichen, Philadelphia	New York University, Institute on Federal Taxation	Reasonable Compensation
7	Harry J. Spellman, Philadelphia	Pennsylvania Institute of C.P.A.s, Philadelphia Chapter, Tax Forum, Drexel Institute	The Pennsylvania Manufacturing Exemption
7	John M. Sullivan, Washington	New York University, Seventeenth Annual Institute on Federal Taxation	The Conflict Between State Partnership Laws and the Internal Revenue Code
7	J. Walker Voris, Los Angeles	California Society of C.P.A.s, Los Angeles Chapter, Annual Systems Conference	Seminar Leader
7	Robert S. Warner, Los Angeles	California Society of C.P.A.s, Los Angeles Chapter, Annual Systems Conference	How Management Services Will Affect the Average Practitioner
10	Felix Kaufman, M.S.R. & C.D.	American Institute of Banking, Tulsa Chapter	Automation in the Banking Industry
12	Curtis J. French, Louisville	St. Matthews Optimist Club, Louisville, Kentucky	The 85th Congress and Your Income Tax
12	James J. Mahon, Jr., Philadelphia	New York University, Institute on Federal Taxation	Individual Tax Matters
12	Margaret White Nally, New York	American Society of Women Accountants, New York Chapter, and New York Women's Bar Association, New York	Panel Member—The Role of the Attorney and the Accountant in Tax Practice
12	Leo V. Tinkham, Chicago	University of Chicago, Seminar on Concepts and Applications of Accounting	Types of Financial Statements and Their Uses
13	Philip L. Defliese, New York	American Management Assn., International Division, Seminar	Convertibility and Financial Statements
13	Herman C. Heiser, M.S.R. & C.D.	N.A.A., Delaware Chapter	Direct Costing
13	William B. Keast, Philadelphia	N.A.A., Ridgeway Sub-Chapter, Ridgeway, Pa.	Responsibility of Accountants—Public and Private
13	James J. Mahon Jr., Philadephia	Pennsylvania Institute of C.P.A.s, Philadelphia Chapter, St. Joseph's College	Public Accounting as a Career

Date	*Speaker*	*Organization*	*Topic*
Nov.			
14	Tibor Fabian, Philadelphia	American Society for Metals, Pennsylvania State University	Production Methods and Operations Research in Metallurgy
14	Richard T. Farrand, Philadelphia	University of Toledo, Federal Institute on Taxation	Net Operating Loss Deductions
14	James E. Gelbert, Pittsburgh	Pennsylvania Institute of C.P.A.s, Northwestern Chapter, Titusville, Pennsylvania	Sub-Chapter "S" Corporations
14	Michael Shegda, M.S.R. & C.D.	American Management Assn., New York	E.D.P. and Production Scheduling
15	Leo V. Tinkham, Chicago	Opportunity Conclave Sponsored by the Illinois Conference of Accountancy Clubs, DePaul University	Opportunities in Public Accounting
18	Claude R. Giles, San Francisco	California Society of C.P.A.s, Sacramento Chapter	Qualifications in Audit Reports
18	John M. Sullivan, Washington	Eastern College of Commerce and Law, Baltimore	Liquidation of a Partner's Interest
19	Herbert G. Bowles, Los Angeles	Bankers-C.P.A.'s Seminar, Los Angeles	Dramatic skit
20	Claude R. Giles, San Francisco	California Society of C.P.A.s, Bakersfield Chapter	Qualifications in Audit Reports
20	Demars B. Paquin, Chicago	University of Wisconsin	Modern Approach to Electronic Data Processing
21	Joseph J. Hyde, San Francisco	Chi Pi Alpha Fraternity, San Francisco	Small Business Tax Revision Act of 1958
22	Francis E. Moore, Boston	Massachusetts Society of C.P.A.s, Boston	Discussion leader of forum—Management Services by C.P.A.s
25	Claude R. Giles, San Francisco	California Society of C.P.A.s, San Jose Chapter	Qualifications in Audit Reports
25	Demars B. Paquin, Chicago	National Machine Accountants Association, Saginaw Valley Chapter, Flint, Michigan	How Business Should Use the Machine Accountant
25	Paul M. Whitman, Cincinnati	Ohio Society of C.P.A.s, Cincinnati Chapter, and Cincinnati Credit Association	Financial Reporting
26	M. B. T. Davies, Tulsa	Oklahoma Society of C.P.A.s, Tulsa	Handling a Management Services Engagement
29	Herman Stuetzer, Jr., Boston	Northeastern University, Fourth Annual Massachusetts Tax Forum	The Practitioner's Problems with the Taxation of Business Corporations Under Chapter 63
Dec.			
1	Carl E. Patton, Houston	Texas Society of C.P.A.s, Houston Chapter	Promotion of Careers in Public Accounting
1	William B. Keast, Philadelphia	Pennsylvania Institute of C.P.A.s, Philadelphia Chapter (Radio Station WPEN)	Embezzlements and the Auditor
1	Philip J. Taylor, Philadelphia	LaSalle College	Panel on Accounting as a Career
2	Curtis J. French, Louisville	Dixie High-Twelve Club, Louisville, Kentucky	Individual Income Taxes
2	Raymond E. Graichen, Philadelphia	Drexel Institute of Technology	The C.P.A.—Businessman—Taxes
2	Raymond E. Graichen, Philadelphia	N.A.A., North Penn. Chapter, Gwynedd, Pa.	Small Business Tax Relief and Financial Assistance
3	Bill Goodner, Birmingham	Alabama Society of C.P.A.s, Birmingham	Pseudo Corporations

Date	*Speaker*	*Organization*	*Topic*
Dec.			
3	John M. Sullivan, Washington	American University Tax Institute	Individual Tax Problems Under the Technical Amendments Act of 1958
4	Robert W. Davis, Cincinnati	University of Cincinnati, Beta Alpha Psi	Internal Control
4	Francis A. Gallagher, Rockford	Rockford Association of Life Underwriters	Estate Planning Seminar
5	John McCullogh, Detroit	Michigan Association of C.P.A.s, Detroit	Code Amendments Affecting Business Corporations and Individuals
6	Raymond E. Graichen, Philadelphia	Pennsylvania Institute of C.P.A.s, Northeastern Chapter, Wilkes College	Buying and Selling a Corporate Business
8	M. B. T. Davies, Tulsa	Controllers' Institute, Tulsa Control	Management Planning for Profit
8	James E. Meredith, Jr., Philadelphia	N.A.A., Scranton Chapter	Standard Direct Costing, A Successful Management Technique
9	Tibor Fabian, Philadelphia	Operations Research Society of America, Philadelphia Chapter, University of Pennsylvania	The Application of Dynamic Programming to a Purchasing Problem
9	J. Paul Finnegan, Boston	Massachusetts Insurance Buyers Association, Boston	Tax Aspects of Insurance Programs
10	Philip J. Taylor, Philadelphia	Peirce School of Business Administration	Careers in Public Accounting
10	Leo V. Tinkham, Chicago	Illinois Society of C.P.A.s, Chicago	Current Developments in Accounting Practice
10	Harry C. Zug, Philadelphia	Pennsylvania Institute of C.P.A.s, Lehigh Valley Chapter, Easton, Pa.	Professional Activities
12	James E. Gelbert, Pittsburgh	New England Trust Conference, Boston	The Accountant and Estate Planning
12	Lambert H. Spronck, San Francisco	California Society of C.P.A.s, Accounting Systems Workshop, San Francisco	Discussion leader on Strip Accounting
13	Kenneth J. Mutzel, Philadelphia	New Jersey Society of C.P.A.s, Camden	How to Buy and Sell a Corporate Business
15	Edward W. Higbee, Boston	Massachusetts Society of C.P.A.s, Boston	Welfare and Pension Plans Disclosure Laws
15, 16	Joseph E. Tansill, Chicago	Illinois Society of C.P.A.s and Illinois State Chamber of Commerce, Tax Conference	Dramatization—The 1958 Acts
16	Norman A. Bolz, Detroit	N.A.A., Calumet Chapter	What to Expect from an Audit
16	John W. Conrad, Chicago	N.A.A., Rockford Chapter	The University of Illinois Executive Development Program
16	Philip J. Taylor, Philadelphia	Germantown High School, Career Conference, Philadelphia	Accounting as a Career
17	Lawrence E. Frazee, Rockford	Kiwanis Club, Rochelle, Ill.	Current Income Tax Developments—1958 Act
18	Felix Kaufman, M.S.R & C.D.	N.A.A., Trenton Chapter	Discussion Forum on Electronics in Action
18	Mark E. Richardson, New York	Advertising Club, Federal Tax Forum, New York	What the Technical Amendments Act Did Not Do
18	Lawrence E. Frazee, Rockford	Rockford Chamber of Commerce	Illinois State Income Tax Legislation Developments
30	T. W. McKibben, Tulsa	Tulsa Tax Club	Exempt Organizations—Sections 501, 502, 503, 504

Professional Society Assignments

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

The following partners and members of our staff are serving as members of council or on committees for the year 1958–59:

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Member at Large

George A. Hewitt	Philadelphia

Ex Officio—Past President

Alvin R. Jennings	New York

Ex Officio—Presidents of State Societies

Claude R. Giles	San Francisco
Harold W. Glore	Louisville
Harry C. Zug	Philadelphia

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Accounting Procedure	Walter R. Staub, New York
Auditing Procedure	Philip L. Defliese, New York
Audits of Securities Brokers and Dealers	George E. Doty, New York
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Subcommittee on Employers and Employees	Philip Bardes, New York
Subcommittee on Administration, Procedure and Miscellaneous Taxes	Paul D. Yager, Washington

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Relations with the Interstate Commerce Commission	G. F. Schweitzer, Philadelphia
Relations with SEC (Chairman)	Louis H. Rappaport, New York
Staff Accountants (Advisory Committee of)	Alfred J. Krupka, New York
Statistical Sampling	Thomas J. Cogan, New York
Tax Accounting Practice (Chairman)	Mark E. Richardson, New York

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Trial Board	George A. Hewitt, Philadelphia
AICPA Foundation	Alvin R. Jennings, New York
National Conference of Lawyers and Certified Public Accountants, Representing the American Institute of Certified Public Accountants	Walter L. Schaffer, New York

Notes

INTERNATIONAL FIRM

The following partners of Coopers & Lybrand attended the annual meeting of the American Institute of C.P.A.s in October:

Kenneth Le M. Carter (Toronto), Roberto Casas Alatriste (Mexico), Rogerio Casas-Alatriste H. (Mexico) and Eduardo Creel (Mexico).

After the annual meeting, the three partners from Mexico visited the New York office.

The 100th office of Coopers & Lybrand was opened on February 2, in Accra, the capital of Ghana.

BOSTON OFFICE

Mr. Carl A. Bader has been appointed a member of the Development Council of the Bentley School of Accounting and Finance.

Mr. Stuetzer is serving as a member of the Alumni-Advance Gifts Committee of Cornell University.

Mr. J. Paul Finnegan is teaching a course in federal income taxes for the Boston Chapter of the American Institute of Banking. He also became a member of the Boston Tax Forum in December.

Mr. W. R. Wilson attended a three-day meeting of the Massachusetts Selectman Association, October 9–11.

The following members of the Boston office staff were successful in completing their examination requirements for the C.P.A. certificate at the November examination:

John F. Brockschlager	Anthony V. Sulmonte
Joseph P. Moore	James Vanderpol

CHICAGO OFFICE

Mr. John W. Conrad is serving his third term as Chairman of the Advisory Council of the Executive Development Program of the University of Illinois.

Mr. Staub is a member of the Federal Revenue and Expenditures Committee of the Chicago Association of Commerce and Industry.

Mr. Tinkham is a member of the Committee on Federal Taxation of the Illinois State Chamber of Commerce and is a member of the Campaign Committee for the Anniversary Dinner of the National Conference of Christians and Jews.

DALLAS OFFICE

Mr. Arthur is a member of the Board of Governors (1958–61) and Chairman of the Fiscal Committee for 1958–59 of the Brook Hollow Golf Club.

Mr. Welsch is a member of the Tax Study Committee for 1958–59 of the Independent Petroleum Association of America, and served during December and January as Chairman of four tax breakfasts of the Dallas Chapter, Texas Society of C.P.A.s.

Mr. James L. Hamlet has been elected a member of the National Association of Accountants.

DETROIT OFFICE

The following members of the Detroit Office staff were successful in completing requirements for the C.P.A. certificate at the November examination:

Donald R. Burry	Jack D. Sharland
Raymond K. Christensen	Robert P. Suchyta
Robert G. Decraene	Allan Wear

In addition, Joseph E. Connell and Ronald W. Woods completed requirements for the Certificate of Examination.

HARTFORD OFFICE

Mr. John R. Berthoud has become a C.P.A. by reciprocity in the State of Connecticut and has been admitted to membership in the Connecticut Society of C.P.A.s. He has also recently become a member of the Hartford Chapter of the National Association of Accountants.

Mr. Darwin R. Carpenter is serving on the Membership Committee of the Connecticut Society of C.P.A.s.

LOS ANGELES OFFICE

Mr. T. Hayes Anglea served during December on a panel of oral examiners for the selection of Principal Accountants for the City of Los Angeles.

Mr. Robert S. Straith is a member for 1958–59 of the Employment Committee of the Southern California Executive Council, Systems and Procedures Association of America. He is also Secretary and Employment Chairman for 1958–59 of the San

Fernando Valley Chapter, Systems and Procedures Association of America.

Mr. J. Walker Voris is Vice President for 1958–59 of the Southern California Executive Council, Systems and Procedures Association of America.

Mr. Harry C. Vournas is Executive Secretary of the Saint Sophia Foundation.

At the annual partners' reception for members of the staff, held on December 20, announcement was made of the attainment of twenty-five years of service by Mrs. Eva R. Orloff, Mr. Edwin B. Cassidy, and Mr. Irving Van Dyne. Mrs. Cassidy, Mrs. Van Dyne, and Mr. Orloff were also present. As a token of appreciation, the firm has arranged for a week's stay for each couple at a leading resort in California or Arizona.

The following staff members have recently joined the American Institute of Certified Public Accountants:

H. Dean Burge
Charles R. Hutchinson
Roy Bardon Maginnis

The following members of the Los Angeles office staff have recently passed the C.P.A. examination:

Richard J. Angarola
Herman J. Grothmann
Richard G. Johnson
Morgan B. Knechtel
Billy Joe McClellan
Robert A. Poons
Gerald Roshwald
Carl J. Sohn
Robert S. Straith
John R. Thomas
Madonna E. Newburg

LOUISVILLE OFFICE

Mr. William R. Hindman is currently serving as Educational Vice President of the Louisville Toastmasters Club and is a council member for 1958–59 of the Louisville Chapter of the National Society for Business Budgeting.

NEW YORK OFFICE

Mr. James B. Alfano, Jr. is President for 1958–59 of the Bergen County Chapter of the Pace Alumni Association.

Mr. Gilbert R. Byrne was recently elected President of the Sons of the Revolution in the State of New York.

Mr. Campbell has been appointed to the Downtown Accountants' Committee for the fund-raising campaign of the March of Dimes for 1959.

MRS. EVELYN DeVIVO

Mr. Doty is Chairman of the Dinner of the Sons of the Revolution, commemorating the Battle of White Plains.

Mr. Fernald is a member of the Tax Committee of the United States Council, International Chamber of Commerce.

Mr. Jennings attended the American Management Association's Course for Presidents at Saranac Lake, December 1–5.

Mr. Leighton is a member of the Committee on Education and Personnel of the New York State Society of C.P.A.s.

Mr. Robert M. Leng is Treasurer of the Staten Island Hospital and of the Staten Island Institute of Arts and Sciences and is a member of the Executive Board of the Richmond Chapter of the New York State Society of C.P.A.s.

Mrs. Margaret W. Nally was an alternate delegate of the New York Chapter of the American Society of Women Accountants to the national convention in Detroit.

Mr Schaffer is Treasurer of the Board of Trustees of the Montclair Y.M.C.A.

Mr. Frank P. Smith is a member of the Committee on the Future of the Undergraduate Accounting Major of the American Accounting Association.

Mr. Towns is serving his fourth year as Treasurer of the National Association of Accountants. He is also a member of the Trial Board of the New York State Society of C.P.A.s, and is Chairman of the Committee on Federal Taxation of the Brooklyn Chamber of Commerce.

PHILADELPHIA OFFICE

Mr. Raymond E. Graichen is a member of the Economics and Taxation Council of the Chamber of Commerce of Greater Philadelphia.

Mr. Taylor participated in a discussion of the annual report of the Statewide Budget and Finance Committee at the Salvation Army State Advisory Conference held in November in Harrisburg.

PITTSBURGH OFFICE

Mr. Bower was appointed Judge of Election for the Annual Meeting of the Shareholders of Fidelity Trust Company held on January 15, 1959.

ROCKFORD OFFICE

Mr. J. Warren Rowland is a member of the Finance Committee of the Kiwanis Club of Rockford.

SAN FRANCISCO OFFICE

Mr. Huss is a member of the State Budget Committee of the United Community Fund of San Francisco. He is also a member of the Editorial Advisory Board of the California Society of C.P.A.s.

Mr. Joseph J. Hyde is a member of the Committee for the 1959 Tax Accounting Conference of the California Society of C.P.A.s.

Mr. C. John McDowell is a member of the Arrangements Committee and Mr. David A. Biasotti is a member of the Housing Committee for the 1959 Annual Meeting of the American Institute of C.P.A.s.

Mr. Donald W. Schroeder served as a discussion leader in two seminars for Bankers and C.P.A.s, October 22 and November 5. He was also Chairman of the San Francisco Committee for Solicitation of Small C.P.A. Firms and Individual Practitioners of the United Bay Area Crusade for 1958.

Mr. Robert L. Turner has been admitted to membership in the American Institute of C.P.A.s.

The annual staff outing was held at the Peninsula Golf and Country Club on November 6, 1958. Winners in the golf tournament were:

Donald W. Schroeder—Low gross
Martin E. Gill—Low net
J. Boyd Nielsen—Callaway handicap

SEATTLE OFFICE

Mr. Kenneth W. Cubbage has been awarded the C.P.A. certificate.

TULSA OFFICE

Mr. Reyburn presented certificates to successful candidates on the May examination at a meeting of the Tulsa Chapter of the Oklahoma Society of C.P.A.s. He was also Chairman of the Registration Committee of the N.A.A. Regional Conference, held in February, and has been appointed a Community Consultant by the Mayor of Tulsa to assist in studying proposed revisions of the charter for Tulsa's local form of government.

Mr. A. G. Gillum was Vice Chairman of the Registration Committee of the N.A.A. Regional Conference held in February.

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CLEVELAND 14	Union Commerce Building
DALLAS 2	First National Bank Building
DETROIT 26	Book Building
HARTFORD 3	37 Lewis Street
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